

**La Caisse Populaire de Shippagan Limitée
(00984)**

**Financial Statements
As at December 31, 2008**

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**Financial Statements
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AUDITOR'S REPORT

To the members of La Caisse Populaire de Shippagan Limitée,

Persuant to section 113 of the *Credit Unions Act*, we have audited the balance sheet of La Caisse Populaire de Shippagan Limitée as at December 31, 2008 and the statements of income, distributable surplus earnings, general reserve (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Caisse populaire'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 misstatements. 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 Caisse populaire as at December 31, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Services Unis de Vérification
et d'Inspection Inc.*

SERVICES UNIS DE VÉRIFICATION
ET D'INSPECTION INC.

Caraquet (New Brunswick)
March 11, 2009

La Caisse Populaire de Shippagan Limitée

Balance Sheet

As at December 31,

	Note	2008	2007
ASSETS			
Liquid assets and investments	5	74 709 470 \$	98 376 643 \$
Loans	6		
Personal		71 575 815	86 628 121
Business		26 280 487	23 540 867
Allowance for credit losses		97 856 302 (8 916 670)	110 168 988 (13 472 161)
		88 939 632	96 696 827
Other assets			
Premises and equipment	7	2 015 418	2 057 652
Accrued interest and other		6 839 747	2 526 382
		8 855 165	4 584 034
Total assets		172 504 267 \$	199 657 504 \$
LIABILITIES			
Deposits			
Term savings		98 934 481 \$	126 515 532 \$
Other		52 215 114	55 693 587
		151 149 595	182 209 119
Other liabilities			
Accrued interest and other		3 913 526	6 850 676
Membership shares	8	85 010	90 220
Stabilization preferred shares	9	9 096 933	752 834
		13 095 469	7 693 730
		164 245 064	189 902 849
EQUITY			
Stabilization preferred shares	9	757 676	9 101 775
Investment equity shares, Series 96	10	5 000 000	5 000 000
General reserve (deficit)		2 501 527	(4 347 120)
		8 259 203	9 754 655
Regulatory capitalization	23		
Supervision	24		
Total liabilities and equity		172 504 267 \$	199 657 504 \$

Approved by the supervisor of the Caisse populaire

, supervisor

La Caisse Populaire de Shippagan Limitée

Statements of Income and Distributable Surplus Earnings

For the year ended December 31,

	Note	2008 (12 months)	2007 (7 months)
INCOME			
Interest income		11 548 206 \$	8 160 020 \$
Interest expense		5 226 910	4 050 296
Net interest income		6 321 296	4 109 724
Recovery of provision and credit losses	6		
General		58 304	138 000
Specific		(394 975)	(164 292)
		(336 671)	(26 292)
Net interest income after recovery of provision and credit losses		6 657 967	4 136 016
Other income	11	1 487 426	654 612
Other expenses			
Personnel	12	2 755 891	1 588 522
Dues and premiums	13	1 070 431	487 454
Premises		457 461	324 140
General expenses	13	1 752 834	1 857 656
		6 036 617	4 257 772
Surplus earnings before income taxes and other items		2 108 776	532 856
Income taxes		548 282	179 625
Reduction of current income tax expenses on the utilization of previously unrecognized future income tax benefits		(548 282)	(179 625)
Additional realization of future income taxes	14	5 113 882	-
Surplus earnings for the year before other items		7 222 658	532 856
Other items	15	-	23 261 900
Surplus earnings for the year after other items		7 222 658	23 794 756
DISTRIBUTABLE SURPLUS EARNINGS			
Transfer to general reserve	16	(6 944 817)	(23 661 030)
Interest on stabilization preferred shares, net of tax recovery		(277 841)	(133 726)
Distributable surplus earnings		- \$	- \$

La Caisse Populaire de Shippagan Limitée

Statement of General Reserve (Deficit)

For the year ended December 31,

	2008 (12 months)	2007 (7 months)
Balance, beginning of year	(4 347 120) \$	(42 200 345) \$
Cancellation of the special surplus shares	-	14 288 445
Transfer from the statement of distributable surplus earnings	6 944 817	23 661 030
Dividends on investment equity shares, Series 96, net of tax recovery	(96 170)	(96 250)
Balance, end of year	2 501 527 \$	(4 347 120) \$

La Caisse Populaire de Shippagan Limitée

Statement of Cash Flows

For the year ended December 31,

	2008 (12 months)	2007 (7 months)
OPERATING ACTIVITIES		
Surplus earnings for the year after other items	7 222 658 \$	23 794 756 \$
Adjustments to determine cash flows		
Recovery of provision and credit losses	(336 671)	(26 292)
Depreciation of premises and equipment	226 525	206 435
Additional realization of future income taxes	(5 113 882)	-
Net change in accrued interest receivable and payable	(1 782 610)	917 144
Other	(733 244)	5 786 623
Cash flows from operating activities	(517 224)	30 678 666
FINANCING ACTIVITIES		
Net change in member deposits	(31 059 524)	(10 508 993)
Stabilization preferred shares	-	9 854 609
Cash flows from financing activities	(31 059 524)	(654 384)
INVESTING ACTIVITIES		
Net change in loans	8 093 866	7 056 767
Net change in investments	4 990 067	(45 549 392)
Net change in premises and equipment	(184 291)	(363 681)
Cash flows from investing activities	12 899 642	(38 856 306)
Decrease in cash	(18 677 106)	(8 832 024)
Cash, beginning of year	27 425 935	36 257 959
Cash, end of year	8 748 829 \$	27 425 935 \$
Other cash flow information:		
Interest paid during the year	7 188 080 \$	2 159 490 \$

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 1. Article and types of operations

The Caisse populaire is a co-operative governed by the *Credit Unions Act* whose purpose is to provide a complete range of financial services that meets the needs of its members and operates on a co-operative basis and in accordance with generally accepted co-operative principles.

The Caisse populaire is listed with the New Brunswick Credit Union Deposit Insurance Corporation. It is also member of Office de Stabilisation de La Fédération des Caisses Populaires Acadiennes Limitée (Office de stabilisation) whose purpose is to protect its member credit unions against financial losses and insolvency and to provide financial assistance for the purposes of stabilization.

Note 2. New accounting standards

On January 1st, 2008, the Caisse populaire adopted the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) entitled "Capital Disclosures" (Section 1535), "Financial Instruments – Disclosures" (Section 3862), and "Financial Instruments – Presentation" (Section 3863).

The purpose of Section 1535 is to require the disclosure of information that enables financial statement users to evaluate the Caisse populaire's objectives, policies and processes for managing capital. The disclosures required by this new standard are presented in Note 23 .

It should be noted that Sections 3862 and 3863 supersede Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3863 carries forward unchanged the presentation standards contained in Section 3861. The purpose of Section 3862 is to inform users in order to enhance their understanding and evaluation of the significance of financial instruments for the Caisse populaire's financial position and performance, as well as to help them better evaluate the nature and extent of risks arising from financial instruments and how they are managed. Since these new standards specifically cover the disclosures to be provided, they had no impact on the Caisse populaire's results or financial position.

Note 3. Accounting policies

The preparation of financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts in the financial statements and in the notes to financial statements. Actual results could differ from those estimates.

Financial instruments

Since January 1st, 2007, the Caisse populaire has accounted for its financial instruments according to the CICA accounting standards entitled "Financial Instruments - Measurement and Reporting" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530). Comprehensive Income has no impact on the financial statements of the Caisse populaire. The main requirements of the first two standards are set out hereinafter.

Financial instruments - Recognition and measurement

Financial assets have to be classified in one of the following categories: "Held for trading"; "Available for sale"; "Held to maturity"; and "Loans and receivables". The financial liabilities have to be classified in the "Held for trading" or in the "Other" category. The financial assets and liabilities are initially recognized at fair value.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 3. Accounting policies - continued

Financial instruments held for trading by the Caisse populaire consist of derivative instruments and an investment in the Commercial loan fund of the Caisses Populaires Acadiennes for the reasons described below. Financial assets available for sale consist of shares which have no quoted market prices and are recorded at cost. The category "Held to maturity" is not utilized. The loans and receivables and the financial liabilities which are not held for trading are recorded at amortized cost using the effective interest rate method. The interest income and expense on these assets and liabilities are recorded in net interest income. Transaction costs on the financial instruments related mainly to loans and receivables are capitalized and amortized over the life of the instrument.

Derivative instruments and hedging

The Caisse populaire uses options to manage the risks inherent in its liabilities. As provided for in the Canadian generally accepted accounting principles, the Caisse populaire elected not to adopt hedge accounting for these derivatives in light of the complexity of the new requirements for documenting hedging relationships.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the financial statement date. Gains and losses as a result of translation or settlement of assets and liabilities are recognized in other income.

Other accounting policies

In order to facilitate the comprehension of the financial statements, the significant accounting policies other than the foregoing have been integrated into the Notes.

Note 4. Future accounting changes

Credit risk and fair value of financial assets and financial liabilities

On January 20, 2009, the CICA's Emerging Issues Committee published EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This abstract indicates that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This change, which applies to the 2009 fiscal year, should have no material impact on the Caisse populaire's results or financial position.

Transition to International Financial Reporting Standards

At present, the Caisse populaire's financial statements are prepared in accordance with Canadian generally accepted accounting principles, as set out by the CICA.

In February 2008, the Canadian Accounting Standards Board issued a news release confirming that publicly accountable enterprises, which includes the Caisse populaire, would be required to apply International Financial Reporting Standards (IFRS) effective January 1st, 2011. The need for international harmonizing of accounting standards is chiefly because of market globalization.

The Caisse populaire will therefore adopt IFRS on January 1st, 2011. La Fédération des Caisses Populaires Acadiennes Limitée (Fédération) is presently assessing the impact of the conversion to IFRS for all the components of the Mouvement des caisses populaires acadiennes (Mouvement).

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 5. Liquid assets and investments

	2008	2007
Cash	8 748 829 \$	27 425 935 \$
Shares	756 793	756 793
Term deposits	52 500 000	55 000 000
Investment in liquidity fund under management	12 438 848	15 193 915
Investment in Commercial loan fund of the Caisses Populaires Acadiennes	265 000	-
	74 709 470 \$	98 376 643 \$

Cash includes cash and other items used for current operations. Shares are recorded at cost. Investments in term deposits are classified as "Loans and receivables".

So that the Caisse populaire can manage liquidity risk, it keeps the amounts necessary to maintain a minimum level of liquidity, as defined by the *General Regulation - Credit Unions Act*, in a fund under management designed specifically for this purpose. The amounts paid into this fund by all the caisses populaires are invested in a portfolio of securities that must satisfy high safety and negotiability standards so that, if the need arises, these could be cashed without incurring a material loss on their value. These amounts are excluded from cash because regulations do not permit them to be used for current operations. The investment in this fund is recorded at cost and classified as "Available for sale".

The investment in the Commercial loan fund of the Caisses Populaires Acadiennes is recorded at fair value and classified as "Held for trading" as initially designated.

As at December 31, 2008 and 2007, no write-down is required to reflect a permanent impairment in value of investment.

Note 6. Loans

Loans are recorded at amortized cost, using the effective interest rate method, net of the allowance for credit losses, which reflects management's best estimate of potential losses on the loans portfolio. This allowance is made up of specific allowances and a general allowance.

Specific allowances are determined on loans considered to be impaired. A loan is considered impaired when one of the following situations occur: in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal and interest; the loan is more than 180 days in arrears; or the interest or principal repayment is 90 days or more past due, unless the loan is fully secured. The value of impaired loans is adjusted by discounting the expected future cash flows from these loans, and the allowance is equal to the difference between this valuation and the balance of the loan. Any variation in the cumulative allowance due either to the passage of time or to a revision of expected payments is recorded under "Provision and credit losses" in the statement of income.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 6. Loans - continued

The general allowance is intended to evaluate loan losses that cannot be determined on an individual basis. The general allowance for impaired loans is management's best estimate of the loss that is likely to be experienced on loans that were not impaired at year end. For specific types of loans considered to be higher risk, the general allowance was determined by estimating, based on management's judgment and recent experience, the percentage of the at risk loans by loan type that is likely to become impaired and then applying the average estimated loss ratio on similar types of impaired loans that were individually reviewed. For all other at risk loans, the general allowance was calculated at 3,5 % for loans issued prior to November 2004 and 2 % for loans issued from November 2004 to May 2007. For loans issued since June 1st, 2007, it was established according to the directive 02-01 from Office de stabilisation and based on the assets at risk at year end.

Loans and allowance for credit losses

	2008			
	Personal	Business	General allowance	Total
Loans, neither past due nor impaired, gross	61 205 236 \$	20 524 034 \$	-	81 729 270 \$
Loans, past due but not impaired, gross	6 898 281	631 943	-	7 530 224
Gross impaired loans	3 472 298	5 124 510	-	8 596 808
Total gross loans	71 575 815	26 280 487	-	97 856 302
Specific allowances	(1 624 779)	(3 717 070)	-	(5 341 849)
General allowance	-	-	(3 574 821)	(3 574 821)
Total net loans	69 951 036 \$	22 563 417 \$	(3 574 821) \$	88 939 632 \$

Past due loans are loans on which the counterparty has failed to make a payment when contractually due.

Loans past due but not impaired

	2008				
	From 1 to 29 days	From 30 to 59 days	From 60 to 89 days	90 days and greater	Total
Personal	5 883 282 \$	728 123 \$	286 876 \$	-	6 898 281 \$
Business	453 034	178 909	-	-	631 943
	6 336 316 \$	907 032 \$	286 876 \$	- \$	7 530 224 \$

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Notes to Financial Statements

For the year ended December 31, 2008

Note 6. Loans - continued

Impaired loans and specific allowances

	2008		
	Gross	Specific allowances	Net
Personal	3 472 298 \$	(1 624 779) \$	1 847 519 \$
Business	5 124 510	(3 717 070)	1 407 440
	8 596 808 \$	(5 341 849) \$	3 254 959 \$

	2007		
	Gross	Specific allowances	Net
Personal	3 908 821 \$	(2 449 807) \$	1 459 014 \$
Business	9 213 775	(5 849 409)	3 364 366
	13 122 596 \$	(8 299 216) \$	4 823 380 \$

Change in the allowance for credit losses

	2008 (12 months)	2007 (7 months)
Balance, beginning of year	13 472 161 \$	14 068 658 \$
Recovery of provision and credit losses	(336 671)	(26 292)
Recovery of loans previously written off	443 742	185 112
Write-offs and other	(4 662 562)	(755 317)
Balance, end of year	8 916 670 \$	13 472 161 \$

The recovery of provision and credit losses - specific recorded in the statement of income in 2008 consist of recoveries totalling 226 585 \$ on personal loans and 168 390 \$ on business loans.

Significant judgment was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding as at December 31, 2008 will differ from these estimates and the differences could be material. Management estimates that the actual realization of impaired loans could result in a total allowance that varies from 8 254 000 \$ to 9 580 000 \$.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 7. Premises and equipment

				2008	2007
	Useful life	Cost	Accumulated depreciation	Net book value	Net book value
Land		167 536 \$	- \$	167 536 \$	167 536 \$
Building	20 years	1 499 576	174 561	1 325 015	1 257 447
Material	3 to 5 years	1 501 031	1 009 108	491 923	600 097
Land improvements	20 years	34 710	3 766	30 944	32 572
		3 202 853 \$	1 187 435 \$	2 015 418 \$	2 057 652 \$

Premises and equipment are recorded at cost and depreciated with the straight line and the diminishing balance method over the equivalent useful life of the assets. The depreciation recorded amounts to 226 525 \$ (206 435 \$ for the seven month period ended December 31, 2007).

Note 8. Membership shares

The Caisse populaire can issue an unlimited number of membership shares with an issue price of 5 \$ each, redeemable on demand. A member has one voting right unregard the number of membership shares he must purchase and hold under the requirements of the Caisse populaire's by-laws.

Membership shares issued and fully paid represent an amount of 85 010 \$ (90 220 \$ in 2007).

Note 9. Stabilization preferred shares

The stabilization preferred shares are held only by Office de stabilisation. These shares are non-voting, non participating and are redeemable at Office de stabilisation's discretion. They bear interest at an annual rate of 3,81 %, payable semiannually on June 30 and December 31.

The stabilization preferred shares represent an amount of 9 854 609 \$ (9 854 609 \$ in 2007). The portion of the stabilization preferred shares that is not required for the Caisse populaire to meet the 5 % regulatory capital, which is the minimum required by the Credit Unions Act, is presented as a liability on the balance sheet. At year end, this represents an amount of 9 096 933 \$ (752 834 \$ in 2007).

Note 10. Investments equity shares, Series 96

The investment equity shares, Series 96 have been issued in accordance with the Credit Unions Act. These shares have a par value of 1 \$ each, are cumulative, non-voting and non-participating.

Investment equity shares, Series 96 issued and fully paid represent an amount of 5 000 000 \$ (5 000 000 \$ in 2007).

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 11. Other income

	2008 (12 months)	2007 (7 months)
Mainly earned from the administration of deposits	1 182 789 \$	436 024 \$
Earned from the administration of other services	304 637	218 588
	1 487 426 \$	654 612 \$

The income earned from the administration of deposits consists mainly of charges related to payment authorizations issued without sufficient funds and to service charges, whereas the income earned from the administration of other services are made up of commissions, of charges relating to the collection done on behalf of various organizations and of income earned from inter-Caisses transactions and foreign exchange.

Note 12. Futur social benefits related to the pension plan

The Caisse populaire participates in the Régime de pension des employés du Mouvement des Caisses populaires acadiennes which is a defined benefit pension plan. The benefits from the pension plan are established based on the number of years of participation in the pension plan and on the employee's salary.

The pension plan is accounted for by following the rules for the defined contribution pension plans. The cost recognized during the year in relation with the plan represents an amount of 218 279 \$ (20 774 \$ for the seven month period ended December 31, 2007) and is recorded in "Personnel" on the statement of income.

Note 13. Particulars of certain other expenses

	2008 (12 months)	2007 (7 months)
Dues and premiums		
Fédération	564 970 \$	258 193 \$
Office de stabilisation	272 327	204 990
Information technology development	176 328	23 921
Other	56 806	350
	1 070 431 \$	487 454 \$

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 13. Particulars of certain other expenses - continued

	2008 (12 months)	2007 (7 months)
General expenses		
Computer services	657 884 \$	272 721 \$
Expenses related to the conversion of the computer system	-	710 000
Office supplies and communications	314 356	288 165
Expenses related to deposits and services	213 337	161 320
Inter-Caisses transactions	164 329	15 869
Advertising and sponsorships	84 083	104 616
Other	318 845	304 965
	1 752 834 \$	1 857 656 \$

Note 14. Income taxes

The following reflects the Caisse populaire's future tax asset:

	2008	2007
Non-capital losses carried forward	1 295 912 \$	1 872 989 \$
Tax value of loans and premises and equipment in excess of the accounting value	3 848 299	2 839 683
Other	101 081	180 030
	5 245 292	4 892 702
Valuation allowance	-	4 892 702
Net future tax asset	5 245 292 \$	- \$

As at December 31, 2008, losses available to reduce future taxable income and consequently reduce income taxes of the Caisse populaire are as follows:

Expiry date	Loss
2026	3 673 407 \$
2027	1 310 868

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 15. Other items

The Caisse populaire received contributions totalling 32 957 900 \$ in 2007 in relation to its change of affiliation. The income taxes on that amount were 9 696 000 \$.

Note 16. Transfer to general reserve

The supervisor of the Caisse populaire decided to transfer all the surplus earnings for the year after other items to the general reserve.

Note 17. Related party transactions

Fédération

The Caisse populaire is affiliated to the Fédération which provides various services of a technical, financial and administrative nature.

In the ordinary course of business, the Caisse populaire carries out transactions with other Mouvement components. It also concludes financial transactions with the members of the board. The transactions with related parties are accounted at the exchange value which represents the amount agreed by the parties. The conditions for these transactions are comparable to those offered on the financial markets.

The following table shows the main transactions other than those specifically identified elsewhere in the financial statements.

	Balance sheet		Statement of income	
	2008	2007	2008 (12 months)	2007 7 months
Liquid assets and investments	74 709 470 \$	98 376 643 \$	2 917 955 \$	2 373 884 \$
Other income			136 536	11 770
Other expenses			1 019 192	332 169

Other income consists mainly of inter-Caisses transactions whereas other expenses consist mainly of computer services, inter-Caisses transactions, charges related to deposits and services, insurance and options.

Directors and employees

In the course of business, the Caisse populaire concludes financial transactions with the Board members and employees at conditions comparable to those offered to the other members, except for the following:

Employees

- exemption of service charges on their personal savings accounts and on those of their immediate family members;
- exemption of various charges;
- preferred interest rate policy on personal and mortgage loans and on deposits.

The total amount paid to the Board members for per diem and expenses incurred in the course of their duties is 32 460 \$ (10 395 \$ for the seven month period ended December 31, 2007).

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 18. Interest rate sensitivity

The following table summarizes the Caisse populaire's interest rate position as at December 31, 2008.

	Overall sensitivity gap
Interest rate sensitive elements	
0 to 3 months	22 214 960 \$
4 to 12 months	29 019 319
1 to 5 years	3 562 791
Over 5 years	449 924
Non-interest rate sensitive elements	(55 246 994)
	- \$

The overall sensitivity gap is based on maturity dates or, when they are closer, on repricing dates of fixed-rate assets and liabilities. The sensitivity gap represents the difference between the total of assets and the total of liabilities and equity for a given period.

A positive overall sensitivity gap for a given period means that a lasting rising trend of interest rates would push the Caisse populaire's net interest income up, while a lowering trend would bring net interest income down. The opposite will occur with a negative sensitivity gap.

The average weighted rates for the major categories of interest-sensitive assets and liabilities reported in the balance sheet are as follows:

Assets		Liabilities	
Liquid assets and investments	4,1 %	Deposits	4,1 %
Loans	7,8		

Data showing interest rate sensitivity for major assets and liabilities are available for consultation at the Caisse populaire by members.

Note 19. Fair value of financial instruments

The following table shows the fair value of financial instruments carried or not carried on the Caisse populaire's balance sheet. Interest rate sensitivity represents the main cause of fluctuation in the fair value of the Caisse populaire's financial instruments. The carrying value of financial instruments is not adjusted to take into account increases or reductions in fair value resulting from interest rate fluctuations.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 19. Fair value of financial instruments - continued

The fair value of financial instruments is as follows:

	2008		2007	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Liquid assets and investments	74 709 470 \$	77 284 140 \$	98 376 643 \$	100 082 807 \$
Loans	88 939 632	90 964 234	96 696 827	97 262 957
Other financial assets	1 408 311	1 408 311	1 586 871	1 586 871
Liabilities				
Deposits	151 149 595	156 819 513	182 209 119	188 553 110
Other financial liabilities	2 547 348	2 547 348	4 508 518	4 508 518

The fair value of financial assets and liabilities is determined based on a discounted cash flow method that uses market interest rates for similar financial assets and liabilities

The fair value of those items not considered financial instruments, such as premises and equipment, is not included in the preceding table.

Note 20. Letters of guarantee

Letters of guarantee are an irrevocable commitment by the Caisse populaire to make payments in the event that a member cannot meet its obligations to third parties. These letters are generally collateralized in accordance with the same policy the Caisse populaire has with respect to loans. At year end, the maximum potential amount of future payments relative to these letters represent an amount of 116 400 \$.

The Caisse populaire did not deem it necessary to record an allowance on the balance sheet for these letters of guarantee.

Note 21. Credit commitments

The Caisse populaire's credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of guarantee. At year end, these credit commitments amount to 9 912 284 \$.

Note 22. Financial instrument risk management

The Caisse populaire is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk and market risk. The Caisse populaire enjoys a risk management framework supplied by the Fédération, whose objective is to optimize the risk/return trade-off.

It is within this context that the members of the Caisse populaire's Board of Directors, working together with general management, must define, adopt, implement, monitor and control a management framework that will identify and measure all significant risks to which the Caisse is exposed, and take corrective action in a timely manner.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 22. Financial instrument risk management - continued

To provide benchmarks for sound and prudent management, the Caisse populaire's Board of Directors relies on laws and regulations, the Code of Ethics for the Mouvement, directives from Office de stabilisation, the Fédération policies and its own policies. This risk management approach is based on principles that encourage the Caisse populaire to take responsibility for the quality of risk management.

CREDIT RISK

Credit risk represents the risk of losses if a borrower or a counterparty fails to honour its contractual obligations, appearing or not on the balance sheet.

Credit risk management

The Caisse populaire is responsible for the credit risk inherent in its lending activities. For this purpose, the Caisse populaire has approval limits assigned by Office de stabilisation as well as a management framework and tools.

Framework

Policies and practices for credit management define the framework within which lending operations and other transactions that feature a credit risk are to be carried out, as well as the controls required in their regard.

For this purpose, they define, among other things:

- management, follow up and control of credit risk;
- the roles and responsibilities of the main parties involved in credit.

The credit practices designate the credit practices applicable to the caisses populaires and adopted by Office de stabilisation. They set out the guidelines for credit risk management and control at the Caisse populaire and the financing terms and conditions applicable to borrowers.

The Caisse populaire adopts credit policies and reviews them annually to confirm that it is applying the credit policies and practices authorized by Office de stabilisation.

All these structures and policies define the responsibilities of the parties involved, specify the level of risk that the Caisse populaire is willing to assume, establish concentration limits, and set out risk management and control guidelines.

Credit granting

To assess the risk of credit activities with individuals and smaller businesses, credit rating systems developed by the Fédération, based on proven statistics, are used. These systems were developed using a history of borrower behaviour with a profile or characteristics similar to those of the applicant to determine the risk. Such systems are used during credit approval. The performance of these systems is analyzed on an ongoing basis and adjustments are made regularly with a view to assessing borrower risk as accurately as possible.

With respect to business loans, credit granting is based on an analysis of the different parameters for each file, in which each borrower is assigned a rating that represents his level of risk, among other things.

Larger loans are approved by the Fédération.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 22. Financial instrument risk management - continued

Mitigating credit risk

In its lending operations, the Caisse populaire obtains collateral in line with credit practices. Collateral normally takes the form of an asset such as cash, receivables, inventory, movables or capital assets. For some portfolios, programs offered by organizations like the Canada Mortgage and Housing Corporation are used in addition to customary collateral.

The large number of borrowers, for the most part consumers, but also small and medium-sized enterprises from many sectors of the economy, helps promote sound diversification of the financing portfolio. When required, the Caisse populaire uses mechanisms to share risk, notably sharing loans with other components, mainly caisses populaires acadiennes or the Commercial loan fund of the Caisses Populaires Acadiennes.

File monitoring and management of higher risks

The loan portfolio is monitored by the Caisse populaire using credit policies that set out the degree of thoroughness and frequency of review based on the quality and extent of the risk to which the Caisse populaire is exposed. Certain loans that present irregularities or increased risk, compared to what was accepted at the time of approval, are reported to the Fédération. Changes in the portfolio of large, higher-risk loans are monitored. Management of higher-risk loans involves more frequent monitoring by the Caisse populaire with the support of the Fédération.

Maximum credit risk exposure

	2008
Recognized on the balance sheet	
Liquid assets and investments	73 222 685 \$
Loans	
Personal	69 951 036
Business	22 563 417
Other financial assets	1 408 311
	167 145 449 \$
Off-balance sheet	
Letters of guarantee	116 400 \$
Credit commitments	9 912 284
	10 028 684 \$

LIQUIDITY RISK

Liquidity risk refers to the Caisse populaire's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the balance sheet, on the date it is due or otherwise.

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 22. Financial instrument risk management - continued

The purpose of liquidity risk management is to ensure access, on a timely basis and in a profitable manner, to the funds needed to meet the Caisse populaire's financial obligations as they become due, both under normal circumstances and in a crisis situation. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy because it is essential to preserving market and depositor confidence.

Policies have been established describing the principles, limits and procedures that apply to liquidity risk management. The Mouvement also has a liquidity contingency plan to deal with a crisis situation. This plan permits an effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions.

The *Credit Unions Act* sets out the minimum level of liquidity that the Caisse populaire must maintain. This liquidity level is centrally managed by the Mouvement's treasury and is monitored on a monthly basis. Eligible securities must meet high safety and negotiability standards. The liquid securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e., R1-L or better.

The Mouvement's treasury ensures stable sources of funding by type, source and maturity. The Mouvement can also use a securitization program for mortgages insured by the Canada Mortgage and Housing Corporation to round out and diversify its funding.

MARKET RISK

Market risk refers to the risk of changes in the fair value of financial instruments as a result of changes in parameters affecting this value such as interest rates, exchange rates, credit spreads and their volatility.

Interest rate risk management

The Caisse populaire is mainly exposed to interest rate risk through positions related to its traditional financing and deposit-taking activities. Interest rate risk represents the potential impact of interest rate fluctuations on net interest income and on the economic value of equity.

Foreign exchange risk management

The Caisse populaire is exposed to foreign exchange risk, chiefly with respect to loans and deposits denominated in U.S. dollars.

The Caisse populaire manages this risk by limiting the gap between the assets and liabilities in U.S. dollars.

The balance sheet includes the following amounts in Canadian dollars with respect to financial assets and liabilities with cash flows denominated in U.S. dollars:

	2008	2007
Liquid assets and investments	75 095 \$	327 995 \$
Deposits	68 542	130 600

La Caisse Populaire de Shippagan Limitée

Notes to Financial Statements

For the year ended December 31, 2008

Note 23. Capital management

The goal of the Caisse populaire's capital management is to ensure maintenance of adequate base capital for sound and prudent management. Capital management is the responsibility of the Caisse populaire's Board of Directors.

In accordance with the *Credit Unions Act*, the Caisse populaire must maintain minimum capital corresponding to 5 % of its total assets.

The regulatory capital of the Caisse populaire, which is composed of the equity, the membership shares and the general allowance for credit losses on the loans granted after May 31, 2007, is 8 625 213 \$, which represents 5,0 % of total assets (9 982 875 \$ in 2007, which represents 5,0 % of total assets).

At year end, the Caisse populaire's capitalization ratio is equal to the one required by the *Credit Unions Act*.

Note 24. Supervision

The Caisse populaire has been under the supervision of Office de stabilisation pursuant to section 267 of the *Credit Unions Act* since July 26, 2007. The Superintendent of the caisses populaires gave Office de stabilisation its approval to exercise the powers of supervisor prescribed in section 273 (1) of the *Credit Unions Act*.

Note 25. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.