

Eckville District Savings & Credit Union Limited
Financial Statements
October 31, 2010

Eckville District Savings & Credit Union Limited

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For the year ended October 31, 2010

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To the Members of Eckville District Savings & Credit Union Limited:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit and Finance Committees are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

December 14, 2010

M.L. Krecsy

Mitch Krecsy, General Manager

Richard Anderson

Richard Anderson, President

Auditors' Report

To the Members of Eckville District Savings & Credit Union Limited:

We have audited the balance sheet of Eckville District Savings & Credit Union Limited as at October 31, 2010 and the statements of income and comprehensive income, retained earnings and accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta

December 14, 2010

Meyus Norris Penny LLP

Chartered Accountants

Eckville District Savings & Credit Union Limited

Balance Sheet

As at October 31, 2010

	2010	2009
Assets		
Cash	1,741,551	653,702
Income taxes recoverable	74,859	115,135
Investments and accrued interest (Note 3)	13,064,937	10,961,165
Member loans receivable and accrued interest (Note 4)	50,197,386	49,850,977
Other assets (Note 5)	60,784	39,781
Property and equipment (Note 6)	984,256	628,406
Future income tax asset (Note 7)	-	17,933
	66,123,773	62,267,099
Liabilities		
Member deposits and accrued interest (Note 10)	59,913,009	56,691,558
Accounts payable and accrued liabilities	289,646	83,529
Derivatives	43,874	-
Future income tax liability (Note 7)	14,776	-
	60,261,305	56,775,087
Credit facilities (Note 8)		
Capital and retained earnings		
Allocation distributable (Note 11)	177,868	91,637
Common shares (Note 12)	2,495,797	2,268,927
Retained earnings and accumulated other comprehensive income	3,188,803	3,131,448
	5,862,468	5,492,012
	66,123,773	62,267,099

Approved on behalf of the Board

Richard Anderson

Director

Sherron Moos

Director

Eckville District Savings & Credit Union Limited

Statement of Income and Comprehensive Income

For the year ended October 31, 2010

	2010	2009
Financial income		
Interest on member loans	2,532,969	2,714,875
Interest on investments	52,852	104,276
	2,585,821	2,819,151
Financial expense		
Interest on member deposit accounts	924,063	1,181,317
Interest on borrowings	213	6,479
Loss on derivatives	58,613	-
	982,889	1,187,796
Financial margin before provision for credit losses	1,602,932	1,631,355
Provision for credit losses <i>(Note 4)</i>	71,484	280,149
Financial margin after provision for credit losses	1,531,448	1,351,206
Operating expenses		
General business	588,133	540,554
Member security	102,599	96,003
Organizational	79,128	68,691
Occupancy	65,470	64,150
Personnel	819,111	780,062
	1,654,441	1,549,460
Loss before patronage allocation, service charges, other income and income taxes	(122,993)	(198,254)
Patronage allocation <i>(Note 11)</i>	83,435	-
Loss before service charges, other income and income taxes	(206,428)	(198,254)
Service charges and other income	384,762	439,783
Income before income taxes	178,334	241,529
Provision for (recovery of) income taxes <i>(Note 7)</i>		
Current	6,994	(17,521)
Future	32,709	-
	39,703	(17,521)
Net income and comprehensive income	138,631	259,050

The accompanying notes are an integral part of these financial statements

Eckville District Savings & Credit Union Limited
Statement of Retained Earnings and Accumulated Other Comprehensive Income

For the year ended October 31, 2010

	2010	2009
Retained earnings and accumulated other comprehensive income, beginning of year	3,131,448	2,951,244
Add:		
Net income and comprehensive income	138,631	259,050
Deduct:		
Dividends on common shares (net of income tax recovery of \$13,156 (2009 - \$12,791)) <i>(Note 11)</i>	(81,276)	(78,846)
Retained earnings and accumulated other comprehensive income, end of year	3,188,803	3,131,448

The accompanying notes are an integral part of these financial statements

Eckville District Savings & Credit Union Limited

Statement of Cash Flows

For the year ended October 31, 2010

	2010	2009
Cash provided by the following activities		
Operating		
Interest received from member loans	2,526,005	2,736,395
Interest received from investments	49,080	187,005
Service charges and other income received	393,054	424,710
Income taxes paid	33,282	(61,080)
Interest paid to members	(1,203,821)	(1,291,974)
Interest paid on borrowed money	(213)	(6,479)
Operating expenses paid	(1,496,848)	(1,447,364)
	300,539	541,213
Financing		
Change in member deposits, net	3,501,210	(107,548)
Repayments of loan payable	-	(1,875,000)
Issue of common shares	220,708	619,199
Redemption of common shares	(170,780)	(183,415)
	3,551,138	(1,546,764)
Investing		
Change in member loans receivable, net	(422,780)	441,504
Purchase of investments	(2,100,000)	(851,000)
Purchase of property and equipment	(241,048)	(59,532)
	(2,763,828)	(469,028)
Increase (decrease) in cash resources	1,087,849	(1,474,579)
Cash resources, beginning of year	653,702	2,128,281
Cash resources, end of year	1,741,551	653,702
Cash resources are composed of		
Cash on hand	244,199	251,458
Cash with Credit Union Central of Alberta Limited	1,497,352	402,244
	1,741,551	653,702

The accompanying notes are an integral part of these financial statements

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

1. Nature of operations

Eckville District Savings & Credit Union Limited ("the Credit Union") was formed pursuant to the *Credit Union Act* of the Province of Alberta and operates two Credit Union branches. The Credit Union serves members in Eckville Alberta, and the surrounding community.

The Credit Union Deposit Guarantee Corporation ("the 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 of Alberta ("the Province") will ensure that the Corporation carries out this obligation.

2. 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:

Cash

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

Investments and accrued interest

Investments in securities are valued at cost, adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them to maturity, or until market conditions cause alternative investments to become more attractive. Gains and losses on the disposal of securities are included in income in the year in which they occur. Interest income on investments are recorded using the effective interest method.

Member loans receivable and accrued interest

Loans to members are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

The Credit Union recognizes loan fees, costs associated with lending activities and discounts on loans, over the related lending or commitment period. The unamortized portion of these fees, as well as any discounts, is netted against the principal. Loan repayment penalty fees are deferred and amortized to other income over the average term to maturity of such loans.

Interest income from loans is recorded on the accrual basis using the effective interest method for all loans not classified as impaired.

When interest or principal is past due 90 days, the loan is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

2. Accounting policies (Continued from previous page)

Allowance for loan impairment

The Credit Union maintains an allowance for loan impairment that reduces the carrying value of loans to their estimated realizable amount. The allowance is increased by a charge for loan impairment, which is charged to income, and reduced by write-offs, net of recoveries.

A specific allowance is established on an individual loan basis, to reduce the carrying values to estimated realizable amounts. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amount 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 value.

In addition, a non-specific allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A non-specific provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

Foreclosed assets

Foreclosed assets held for sale are recorded at the lower of carrying amount or fair value of the security, net of expected costs of realization. Fair value is based on appraised market values. Any difference between the book value of the loan prior to foreclosure and the amount of initial measurement of the foreclosed asset is recognized by a charge to income.

Property and equipment

Property and equipment are recorded at cost. Amortization is recorded on a declining balance basis over the estimated useful lives at the following rates:

	Rate
Buildings	2.5-20 %
Computer equipment	10-33 %
Furniture	10-33 %
Security equipment	5-20 %

Gains and losses on the disposal of property and equipment are recorded in the statement of income in the year of disposal.

Long-lived assets

Long-lived assets consist of property and equipment and foreclosed assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policy.

The Credit Union performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year. Prices for similar items are used to measure the fair value of long lived assets.

Unauthorized overdrafts

At the end of each fiscal year, as required by the Credit Union Act, the Credit Union writes off all unauthorized overdrafts outstanding for at least 90 days.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

2. Accounting policies (Continued from previous page)

Income taxes

The Credit Union follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in current income.

Measurement uncertainty

The preparation of the Credit Union's 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Investments are stated after evaluation of their value and an appropriate allowance is provided where there is a permanent decline in value.

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

Amortization of property and equipment is provided based on the Credit Union's estimate of useful lives of those assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the periods in which they become known.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

2. Accounting policies (Continued from previous page)

Financial instruments

Held for trading:

The Credit Union has classified the following financial assets and liabilities as held for trading: derivatives. These instruments are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are amortized over the life of the contract.

Fees incurred on an exchange of financial liabilities or a modification of the terms of financial liabilities that is accounted for as an extinguishment are included as part of the gain or loss on extinguishment, while any related other costs incurred are included in the carrying amount of the new financial liability and amortized over its remaining expected life. All fees and costs incurred on the exchange or modification of a financial liability not accounted for as an extinguishment, are recognized in current year earnings.

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transactions costs incurred on sale or other disposal. Gains and losses arising from changes in fair value are recognized immediately in income.

Available-for-sale:

The Credit Union has classified the following financial assets as available-for-sale: cash and investments with Central - Shares. These assets are initially recognized at their fair value, which is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest income is allocated to net income by the effective interest method, using an effective interest rate which exactly discounts estimated future cash receipts to the net carrying amount of the financial asset, over the asset's expected life, or other appropriate period.

Available-for-sale financial assets are subsequently measured at their fair value. Gains and losses arising from changes in fair value, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

Loans and receivables:

The Credit Union has classified the following financial assets as loans and receivables: member loans receivable and accrued interest and accounts receivable. These assets are initially recognized at their fair value. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Held to maturity:

The Credit Union has classified the following financial assets as held to maturity: investments with Central - Term deposits. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

2. Accounting policies (Continued from previous page)

Other financial liabilities:

The Credit Union has classified the following financial liabilities as other financial liabilities: member deposits and accrued interest, and accounts payable and accrued liabilities. These liabilities are initially recognized at their fair value. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs directly attributable to their acquisition are included in the fair value cost of these assets, while transaction costs arising from their disposal are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income.

Fees incurred on an exchange of financial liabilities or a modification of the terms of financial liabilities that is accounted for as an extinguishment are included as part of the gain or loss on extinguishment, while any related other costs incurred are recognized in current earnings. All fees and costs incurred on the exchange or modification of a financial liability not accounted for as an extinguishment are included in the carrying amount of the modified financial liability and amortized over its remaining expected life. Any related other costs incurred are recognized in current year earnings.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial asset impairment:

In addition to the policy for allowance for loan impairment, the Credit Union assesses impairment of all its other financial assets, except those classified as held for trading. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year earnings.

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises, such as investment funds and other reporting issuers. From this date forward, the financial statements, including comparative information, will be reported in accordance with IFRS.

The Credit Union is developing a changeover plan to adopt IFRS on November 1, 2011. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures; and
- Business activities (such as foreign currency and hedging activities) as well as matters that may be influenced by AAP measures (such as debt covenants, capital requirements and compensation arrangements).

The changeover plan is still in the early stages and, as such, the impact of adopting IFRS on the Credit Union's financial reporting is not reasonably determinable.

Business Combinations

CICA Handbook Section 1582 Business Combinations replaces corresponding Section 1581 and establishes new standards for the accounting for business combinations. The new standard requires that the acquisition method (formerly, the purchase method) continue to be applied to business combinations, the acquirer recognize and measure the acquiree as a whole, and the assets and liabilities assumed be recognized and measured at their fair values as of the acquisition date. Section 1582 provides the Canadian equivalent to International Financial Reporting Standard (IFRS) 3 Business Combinations.

This standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Credit Union does not expect the adoption of this new standard to have a material impact on its financial statements.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

3. Investments and accrued interest

	2010	2009
Credit Union Central Alberta Limited ("Central")		
Shares	637,000	637,000
Term deposits	12,410,000	10,310,000
<hr/>		
Total investments with Central	13,047,000	10,947,000
Accrued interest	17,937	14,165
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	13,064,937	10,961,165

All term deposits mature within one year. The Credit Union holds investments in Central to maintain statutory liquidity requirements, as required by the *Credit Union Act*.

4. Member loans receivable and accrued interest

Principal and allowance by loan type

	2010	2009
	<i>Principal</i>	<i>Allowance Specific</i>
	<i>Allowance Non-specific</i>	<i>Net carrying value</i>
	<i>Net carrying value</i>	<i>Net carrying value</i>
Agricultural Loans	1,120,557	-
Commercial Loans	2,954,877	76,794
Consumer Loans	14,860,127	224,523
Commercial Mortgages	3,435,317	-
Residential Mortgages	22,698,281	15,000
Agricultural Mortgages	5,219,509	-
<hr/>		
	50,288,668	316,317
Foreclosed assets	55,000	-
Accrued loan interest	276,497	-
<hr/>		
	50,620,165	316,317
	106,462	49,865,889
	55,000	49,581,443
	276,497	-
	50,197,386	269,534
<hr/>		
	50,620,165	49,850,977

Included in the above are impaired loans totaling \$1,141,785 (2009 - \$714,090).

Maturity by loan type

Member loans receivable, not including accrued interest, mature as follows:

	2010	2009
Under 1 year	23,180,055	20,545,628
1 to 2 years	9,453,270	5,413,357
2 to 3 years	5,729,908	9,221,067
3 to 4 years	6,861,863	6,466,398
Over 4 years	5,118,572	8,342,223
<hr/>		
	50,343,668	49,988,673

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

4. Member loans receivable and accrued interest *(Continued from previous page)*

Loan allowance details

Details of the changes in the allowance for loan impairment are as follows:

	2010	2009
Balance, beginning of year	414,278	337,778
Provision for credit losses	71,484	280,149
<hr/>		
	485,762	617,927
Less accounts written off, net of recoveries	(62,982)	(203,649)
<hr/>		
Balance, end of year	422,780	414,278

Recoveries during the year totaled \$12,504 (2009 - \$1,093).

5. Other assets

	2010	2009
Accounts receivable	11,096	19,388
Prepaid expenses and deposits	49,688	20,393
<hr/>		
	60,784	39,781

6. Property and equipment

	2010	2009	
<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>	<i>Net Book Value</i>
Land	45,000	-	45,000
Buildings	846,794	245,296	601,498
Computer equipment	638,109	342,714	295,395
Furniture	141,198	116,789	24,409
Security equipment	80,772	62,818	17,954
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	1,751,873	767,617	984,256
<hr/>			
			628,406

Amortization expense for the year is \$78,672 (2009 - \$76,868).

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

7. Income taxes

Income tax rate reconciliation

The income tax rate differs from the rate that would be expected for the following reasons:

	2010	2009
	%	%
Statutory rate	28.16	29.00
Income tax rate adjusted for the effect of:		
Small business deduction and credit union deduction	(14.00)	(17.00)
Non-deductible expenses and other	8.10	(19.25)
<hr/>		
Effective income tax rate	22.26	(7.25)

Components of future tax asset (liability)

The future income tax asset (liability) is comprised of temporary deductible (taxable) differences between tax bases and carrying values in the following accounts:

	2010	2009
Property and equipment	(31,880)	973
Loan allowance	17,104	16,960
<hr/>		
	(14,776)	17,933

8. Credit facilities

The Credit Union has an authorized line of credit due on demand, bearing interest at prime minus 0.50% (2009 - prime minus 0.50%) in the amount of \$1,000,000 (2009 - \$1,000,000) from Central. As at October 31, 2010, the balance of this line of credit is \$nil (2009 - \$nil).

The Credit Union also has access to a revolving demand term loan bearing interest at prime less 1% (2009 - prime less 1%). This loan has a maximum available limit of \$7,000,000 (2009 - \$7,000,000). As at October 31, 2010, the balance of this revolving term loan is \$nil (2009 - \$nil).

These credit facilities are secured by all present and future accounts, book debts, instruments, deposits and all monies payable by Central to the Credit Union.

9. Off-balance sheet financial instruments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

9. Off-balance sheet financial instruments (Continued from previous page)

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. During the current year the Credit Union entered into interest rate swaps for the first time.

The Credit Union makes the following instruments available to its members:

- a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and
- c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at October 31, 2010, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2010	2009
Guarantees and standby letters of credit	-	17,200
Commitments to extend credit	8,920,713	4,271,022
	8,920,713	4,288,222

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

10. Member deposits and accrued interest

	2010	2009
Demand deposits	33,069,908	28,503,366
Term deposits	17,758,003	19,981,909
Registered retirement plan	8,336,278	7,368,660
Other savings and deposits	16,482	14,613
Alberta Farm Credit Stability Program ("AFCSP")	6,416	13,228
Tax free savings	367,213	171,315
<hr/>		
	59,554,300	56,053,091
Accrued interest savings and deposits	358,709	638,467
<hr/>		
	59,913,009	56,691,558

Concentra Financial acts as the trustee of the Registered Retirement Savings Plan (RRSP) and the Registered Retirement Income Fund (RRIF) offered to members. Under an agreement with Concentra Financial, the contributions to the plan, and the interest earned on them, are deposited in the Credit Union. When members terminate these plans, the funds are repaid to them.

The Government places amounts on deposit with the Credit Union equal to the loans outstanding under the Alberta Farm Credit Stability Program. The Credit Union is committed to repay these amounts as the loans are repaid.

Maturity of deposits

Member deposit accounts, not including the related accrued interest, mature as follows:

	2010	2009
Under 1 year	48,115,845	45,835,894
1 to 2 years	4,295,414	3,658,056
2 to 3 years	3,854,837	2,950,300
3 to 4 years	872,271	3,082,430
Over 4 years	2,415,933	526,411
<hr/>		
	59,554,300	56,053,091

11. Allocation distributable

The Board of Directors declared a share dividend of 4% (2009 - 5%) on common shares as at October 31, 2010 in the amount of \$94,432 (2009 - \$91,637). The dividends were paid by issuance of common shares on November 18, 2010 of \$94,432 (2009 - \$91,637).

The Board of Directors also allocated patronage of \$83,435 (2009 - \$Nil) as at October 31, 2010. The patronage allocation was based on 3% of the loan interest received and 3% of the deposit interest paid to members (excluding Master Card Credit Cards, Unauthorized Overdrafts, and Registered Retirement Plans) during the fiscal year. The patronage allocation was paid by issuance of common shares on November 16, 2010.

In the prior year deposits in participatory savings accounts were eligible to participate in future distribution of the Credit Union's earnings, as approved by the Board of Directors of the Credit Union. As of November 1, 2009, participatory savings accounts pay a set interest rate of 1% per annum, paid monthly. At October 31, 2009, the Board of Directors had approved payments and accrued interest of 1% totaling \$116,739.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

12. Common shares

The common shares are:

- a) issuable in unlimited number at price of \$1;
- b) issuable as fractional shares with no par value
- c) voting;
- d) transferable only in restricted circumstances;
- e) non-assessable; and
- f) redeemable at par value at the discretion of the Credit Union, subject to the restrictions contained in Credit Union Act.

A membership in the Credit Union requires the purchase of a minimum of 25 shares (5 shares for minors) and individual members are limited to 15,000 shares. The Corporation does not guarantee common shares, which represent "at-risk" capital.

	<i>2010</i>	<i>2009</i>
Balance, beginning of year	2,268,927	1,769,581
Shares issued	305,432	619,199
Share dividends issued	91,637	63,562
Shares redeemed	(170,780)	(183,415)
Balance, end of year	2,495,797	2,268,927

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

13. Related party transactions

Directors, management and staff

The Credit Union, in accordance with its policy, grants credit to its management and staff at rates slightly below member rates. Directors pay regular member rates on loans. Directors, management and staff had \$3,518,148 (2009 - \$2,853,267) in loans outstanding at October 31, 2010. All loans were in good standing at that date and are included in member loans receivable and accrued interest.

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in member deposits and accrued interest on the balance sheet. Directors, management and staff had \$1,506,778 (2009 - \$1,022,638) in deposits at October 31, 2010.

Directors fees and expenses

	2010	2009
Directors fees and committee remuneration	27,181	19,622
Directors expenses	15,905	15,464
	43,086	35,086

Amounts paid to directors range from \$680 (2009 - \$375) to \$5,195 (2009 - \$4,250) with an average of \$3,020 (2009 - \$2,828).

Credit Union Central of Alberta Limited (Central)

The Credit Union is a member of Central, which acts as a depository for surplus funds received from and loans made to credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation is a deposit insurance corporation, which protects the savings and deposits of all credit union members in every credit union within Alberta.

These transactions were made in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

14. Nature and extent of risk arising from financial instruments

The Credit Union, as part of its operations, carries a number of financial instruments. It is management's opinion that the Credit Union is exposed to the following risks as a result of holding financial instruments:

- credit risk;
- liquidity risk; and
- fair value risk.

The following is a description of those risks and how the Credit Union manages the exposure of them.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally 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 which is designed to assess and quantify the level of risk inherent in credit granting activities. Risk is measured by reviewing qualitative and quantitative factors that impact the loan portfolio.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

14. Nature and extent of risk arising from financial instruments *(Continued from previous page)*

Credit quality performance

Refer to Note 4 for additional information on the potential loss exposure related to the Credit Union's loan portfolio.

Objectives, policies and processes

The Credit Union is committed to the following principles in managing credit risk exposure:

- Credit risk assessment includes the establishment of policies and processes related to credit risk management and risk rating;
- Credit risk mitigation includes credit structuring, collateral, and guarantees;
- Credit risk approval limits includes establishing credit risk limits and reporting exceptions thereto;
- Credit risk documentation focuses on documentation and administration; and
- Credit risk monitoring and review.

The Credit Union's credit risk policies, processes and methodologies are reviewed annually to ensure they remain relevant and effective in managing credit risk.

Liquidity Risk

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

Risk measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related investing and borrowing activities of members.

Objectives, policies and processes

The acceptable amount of risk is defined by policies that are approved by the Board of Directors.

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. Management provides monthly reports on these matters to the Board of Directors.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position; and
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain required levels of liquidity while meeting its obligations.

As of October 31, 2010, the Credit Union is in compliance with its liquidity requirements as indicated by the Act.

Fair value

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

14. Nature and extent of risk arising from financial instruments *(Continued from previous page)*

The following methods and assumptions were used to estimate fair values of financial instruments.

- (a) the book value for cash, short term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial instruments.
- (b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost.
- (c) for variable interest rate loans that are frequently re-priced, book values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
- (d) fair value of variable rate and demand deposits approximate their book value. Fair values of other deposits are estimated using discounted cash flow calculations at market rates for similar deposits.
- (e) the fair value of derivative instruments is calculated on market conditions at a specific point in time.

Fair value

The fair value of the financial instruments and their related carrying values has been summarized and included in the table below.

		<i>2010</i>		<i>2009</i>
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets				
Available-for-sale				
Cash	1,741,551	1,741,551	653,702	653,702
Investments with Central - Shares	643,027	643,027	643,212	643,211
Held to maturity				
Investments with Central - Term deposits	12,421,910	12,394,974	10,317,953	10,304,053
Loans and receivables				
Accounts receivable	11,096	11,096	19,388	19,388
Member loans receivable and accrued interest	50,197,386	51,262,718	49,850,977	49,983,951
Financial liabilities				
Other financial liabilities				
Member deposits and accrued interest	59,913,009	60,348,709	56,691,558	58,535,310
Accounts payable and accrued liabilities	289,646	289,646	83,529	83,529
Held for trading - Derivatives	43,874	43,874	-	-

The fair value of cash was determined using published market prices quoted in an active market (referred to as Level 1). The fair value of member loans, other assets, member deposits and term loans were estimated using a valuation technique based on observable market data (referred to as Level 2). The fair value of derivative liabilities was determined using a valuation technique based on observable market data (referred to as Level 2). The Credit Union had other investments that were measured using unobservable market data (referred to as Level 3).

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

15. Interest rate and market risk

The Credit Union's primary source of income is financial margin, which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to manage re-pricing or maturity dates of loans and investments and members' savings and deposits within policy limits that are intended to limit the Credit Union's exposure to changing interest rates. The net gap represents the net mismatch between loans and investments and members' savings and deposits by maturity dates.

Interest rate re-price

					2010	2009
	<i>Floating rate</i>	<i>Within one year</i>	<i>One to five years</i>	<i>Non-rate sensitive</i>	<i>Total</i>	<i>Total</i>
Assets						
Cash	1,497,352	-	-	244,199	1,741,551	653,702
<i>(effective yield %)</i>	0.19	-	-	-	0.19	0.07
Income taxes recoverable	-	-	-	74,859	74,859	115,135
Investments	-	13,064,937	-	-	13,064,937	10,961,165
<i>(effective yield %)</i>	-	0.82	-	-	0.82	0.39
Member loans	15,562,000	6,004,000	28,769,000	(137,614)	50,197,386	49,850,977
<i>(effective yield %)</i>	4.25	5.19	5.47	-	5.08	4.69
Other assets	-	-	-	60,784	60,784	39,781
Future income tax asset	-	-	-	-	-	17,933
Property and equipment	-	-	-	984,256	984,256	628,406
Subtotal	17,059,352	19,068,937	28,769,000	1,226,484	66,123,773	62,267,098
Liabilities & Equity						
Member deposits	17,840,000	14,869,000	11,565,000	15,639,009	59,913,009	56,691,558
<i>(effective cost %)</i>	0.75	1.96	3.71	-	1.43	2.46
Accounts payable	-	-	-	289,646	289,646	83,529
Derivatives	-	-	-	43,874	43,874	-
Future income tax liability	-	-	-	14,776	14,776	-
Equity	-	-	-	5,862,468	5,862,468	5,492,012
Subtotal	17,840,000	14,869,000	11,565,000	21,849,773	66,123,773	62,267,099
Net gap, October 31, 2010	(780,648)	4,199,937	17,204,000	(20,623,289)	-	-
<i>Percentage of assets</i>	(0.01)	6.35	26.02	(31.19)	-	-
Net gap, October 31, 2009	937,030	(326,015)	15,313,757	(15,924,772)	-	-
<i>Percentage of assets</i>	1.49	(0.52)	24.61	(25.58)	-	-

Market Risk

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. 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 net return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

15. Interest rate and market risk (Continued from previous page)

Risk Measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

The following table provides the potential before-tax impact on an immediate and sustained 1% increase or decrease in interest rates on net interest income. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and risk management initiatives.

Before tax impact of:	2010	2009
1% increase in rates	135,000	56,000
1% decrease in rates	(109,000)	(21,000)

Interest rate risk arises from a mismatch between deposit rate and maturities and the yields and maturities of the loans they fund.

16. 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 Act.

The Credit Union measures the adequacy of capital using two methods:

- Total capital as a percent of total assets;
- Total capital as a percent of risk weighted assets. Under this method the Credit Union reviews its loan portfolio 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. 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.

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

- Establishing policies for capital management, monitoring and reporting;
- Establishing policies for related areas such as asset liability management;
- Reporting to the Board of Directors regarding financial results and capital adequacy;
- Reporting to the Credit Union Deposit Guarantee Corporation on its capital adequacy; and
- Establishing budgets and reporting variances to those budgets.

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

- 4% of total assets; and
- 8% of risk weighted assets

Eckville District Savings & Credit Union Limited

Notes to the Financial Statements

For the year ended October 31, 2010

17. Capital management *(Continued from previous page)*

The Credit Union provides financial services to its members and is subject to the capital requirements set out in the Credit Union Act of Alberta ("the Act").

The Credit Union was in compliance with the regulatory requirements as at October 31, 2010 as indicated by the Act as follows:

	2010	2009
Capital as % of total assets	9.23	9.28
Capital as % of Risk weighted assets	19.04	17.93