

**CHINOOK CREDIT UNION LTD.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED OCTOBER 31, 2010**

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## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

To the Members of Chinook Credit Union Ltd.

The financial statements of Chinook 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 Canadian generally accepted accounting principles. The preparation of the statements necessarily involves the use of estimates which are made with 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 Committee, which is composed entirely of directors who are not officers or employees of Chinook Credit Union Ltd. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit Committee reviews the annual financial statements, as well as issues related to them. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit 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, conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit Committee to discuss their audit findings as to the integrity of Chinook Credit Union Ltd.'s financial reporting and adequacy of internal controls.

Kelly & Creaghan, Chartered Accountants has examined these financial statements and their report follows.

BROOKS, ALBERTA

TOM MOSSING  
CHIEF EXECUTIVE OFFICER  
December 23, 2010

## AUDITORS' REPORT

To the Members of Chinook Credit Union Ltd.

We have audited the accompanying balance sheet of Chinook Credit Union Ltd. as at October 31, 2010 and the statements of income and comprehensive 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures are the result of combining the assets, liabilities, members' equity, revenue and expenses of the predecessor credit unions, Chinook Credit Union Ltd. and Macleod Savings & Credit Union Ltd. The Macleod Savings & Credit Union Ltd. comparative figures included in these financial statements, were audited by other auditors, whose report, dated December 11, 2009, expressed an unqualified audit opinion on those financial statements.

CALGARY, ALBERTA  
December 23, 2010

KELLY & CREAGHAN  
CHARTERED ACCOUNTANTS

**CHINOOK CREDIT UNION LTD.**  
**BALANCE SHEET**  
**AS AT OCTOBER 31, 2010**

**2010**

**2009**

**ASSETS**

|   |                       |                       |
|---|-----------------------|-----------------------|
| Cash                                      | \$ 13,733,375         | \$ 18,190,006         |
| Investments and accrued interest (Note 3) | 91,620,448            | 84,114,003            |
| Other assets (Note 4)                     | 880,905               | 1,205,249             |
| Loans to members (Note 5)                 | 613,010,070           | 604,668,751           |
| Property and equipment (Note 6)           | <u>11,718,954</u>     | <u>11,441,810</u>     |
|   | <u>\$ 730,963,752</u> | <u>\$ 719,619,819</u> |

**LIABILITIES**

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Accounts payable (Note 8, 18) | \$ 1,984,195       | \$ 1,928,979       |
| Deposit accounts (Note 7)     | <u>673,505,608</u> | <u>666,081,739</u> |
|                               | <u>675,489,803</u> | <u>668,010,718</u> |

Commitments and contingencies (Note 8)

**CAPITAL AND RETAINED EARNINGS**

|                                   |                       |                       |
|-----------------------------------|-----------------------|-----------------------|
| Allocation distributable (Note 9) | 156,669               | 872,953               |
| Common shares (Note 10)           | 34,399,753            | 31,220,180            |
| Retained earnings                 | <u>20,917,527</u>     | <u>19,515,968</u>     |
|                                   | <u>55,473,949</u>     | <u>51,609,101</u>     |
|                                   | <u>\$ 730,963,752</u> | <u>\$ 719,619,819</u> |

Approved on behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements

**CHINOOK CREDIT UNION LTD.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

|  | <b>2010</b>         | <b>2009</b>         |
|--|---------------------|---------------------|
| <b>Financial income</b>                                    |                     |                     |
| Interest on members' loans                                 | \$ 27,255,983       | \$ 27,897,801       |
| Interest on investments                                    | <u>816,060</u>      | <u>1,816,469</u>    |
|  | <u>28,072,043</u>   | <u>29,714,270</u>   |
| <b>Financial expenses</b>                                  |                     |                     |
| Interest on deposit accounts                               | 11,645,654          | 13,197,168          |
| Interest on financing and service charges                  | <u>11,781</u>       | <u>101,821</u>      |
|  | <u>11,657,435</u>   | <u>13,298,989</u>   |
| <b>Financial margin</b>                                    |                     |                     |
|  | 16,414,608          | 16,415,281          |
| Charge for loan impairment (Note 5)                        | <u>84,000</u>       | <u>134,000</u>      |
| <b>Financial margin after charge for loan impairment</b>   |                     |                     |
|  | 16,330,608          | 16,281,281          |
| Other income - service charges, rent and fees (Note 2)     | <u>4,811,673</u>    | <u>4,947,367</u>    |
| <b>Gross margin</b>  | <u>21,142,281</u>   | <u>21,228,648</u>   |
| <b>Operating expenses - Schedule 1</b>                     |                     |                     |
| Personnel  | 9,918,508           | 9,559,225           |
| Occupancy  | 1,044,944           | 971,368             |
| Members security   | 1,347,102           | 1,168,270           |
| Organization   | 379,768             | 383,223             |
| General  | <u>5,718,836</u>    | <u>5,335,476</u>    |
|  | <u>18,409,158</u>   | <u>17,417,562</u>   |
| <b>Income before patronage allocation and income taxes</b> |                     |                     |
|  | 2,733,123           | 3,811,086           |
| Patronage allocation (Note 9)                              | <u>64,268</u>       | <u>-</u>            |
| <b>Income before income taxes</b>                          | 2,668,855           | 3,811,086           |
| Income taxes (Note 16)                                     | <u>595,452</u>      | <u>712,544</u>      |
| <b>Net income for the year</b>                             | <u>\$ 2,073,403</u> | <u>\$ 3,098,542</u> |

The accompanying notes are an integral part of these financial statements

**CHINOOK CREDIT UNION LTD.  
STATEMENT OF RETAINED EARNINGS  
FOR THE YEAR ENDED OCTOBER 31, 2010**

|  | <b>2010</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| <b>Retained earnings</b>   |                      |                      |
| Retained earnings, beginning of year   | \$ <u>19,515,968</u> | \$ <u>17,146,889</u> |
| Add:   |                      |                      |
| Net income for the year  | <u>2,073,403</u>     | <u>3,098,542</u>     |
| Less:  |                      |                      |
| Dividends on common shares (net of<br>income tax recovery of \$178,592 ; (2009 \$143,340) (Note 9) | <u>(671,844)</u>     | <u>(729,463)</u>     |
| Retained earnings, end of year   | <u>\$ 20,917,527</u> | <u>\$ 19,515,968</u> |

The accompanying notes are an integral part of these financial statements

**CHINOOK CREDIT UNION LTD.**  
**STATEMENT OF COMPREHENSIVE INCOME &**  
**ACCUMULATED OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

|  | <b>2010</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| Net Income   | \$ 2,073,403         | \$ 3,098,542         |
| Other Comprehensive Income (net of tax)                                      |                      |                      |
| Net unrealized gains (losses) on available for sale<br>financial instruments | <u>          -</u>   | <u>      132,000</u> |
| Comprehensive Income   | <u>\$ 2,073,403</u>  | <u>\$ 3,230,542</u>  |
| Accumulated Other Comprehensive Income,<br>beginning of year                 | -                    | (132,000)            |
| Other Comprehensive Income   | <u>          -</u>   | <u>      132,000</u> |
| Accumulated Other Comprehensive Income,<br>end of year                       | <u>\$          -</u> | <u>\$          -</u> |

The accompanying notes are an integral part of these financial statements

**CHINOOK CREDIT UNION LTD.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

|  | <b>2010</b>          | <b>2009</b>          |
|--|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES (CASH USED)</b>  |                      |                      |
| Interest received  | \$ 28,235,239        | \$ 30,638,653        |
| Other income received                                    | 4,811,672            | 4,857,676            |
| Interest paid  | (12,161,433)         | (13,031,826)         |
| Income taxes paid  | (554,528)            | (93,120)             |
| Operating expenses paid                                  | <u>(16,976,325)</u>  | <u>(18,147,232)</u>  |
|  | <u>3,354,625</u>     | <u>4,224,151</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES (CASH USED)</b>  |                      |                      |
| Common shares issued, net of redemptions                 | 1,548,586            | 3,262,718            |
| Net increase in deposits                                 | <u>7,918,973</u>     | <u>30,259,485</u>    |
|  | <u>9,467,559</u>     | <u>33,522,203</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES (CASH USED)</b>  |                      |                      |
| Purchase of property and equipment, net of sale proceeds | (1,183,855)          | (409,476)            |
| Net increase in loans                                    | (8,325,612)          | (48,257,787)         |
| Purchase of investments                                  | <u>(7,769,348)</u>   | <u>16,212,410</u>    |
|  | <u>(17,278,815)</u>  | <u>(32,454,853)</u>  |
| <b>(Decrease) increase in cash</b>                       | (4,456,631)          | 5,291,501            |
| <b>Cash, beginning of year</b>                           | <u>18,190,006</u>    | <u>12,898,505</u>    |
| <b>Cash, end of year</b>                                 | <u>\$ 13,733,375</u> | <u>\$ 18,190,006</u> |

The accompanying notes are an integral part of these financial statements

**CHINOOK CREDIT UNION LTD.**  
**SCHEDULE OF OPERATING EXPENSES - SCHEDULE 1**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

|                                   | <b>2010</b>         | <b>2009</b>         |
|-----------------------------------|---------------------|---------------------|
| <b>Personnel expenses</b>         | <u>\$ 9,918,508</u> | <u>\$ 9,559,225</u> |
| <b>Occupancy expenses</b>         |                     |                     |
| Amortization                      | 332,509             | 320,398             |
| Property taxes                    | 138,050             | 136,818             |
| Rent                              | 107,937             | 72,237              |
| Repairs and maintenance           | 297,320             | 277,655             |
| Utilities                         | <u>169,128</u>      | <u>164,260</u>      |
|                                   | <u>1,044,944</u>    | <u>971,368</u>      |
| <b>Members' security expenses</b> |                     |                     |
| Bonding (recovery)                | 96,892              | (17,998)            |
| Deposit guarantee assessment      | 1,153,080           | 1,100,342           |
| Insurance                         | <u>97,130</u>       | <u>85,926</u>       |
|                                   | <u>1,347,102</u>    | <u>1,168,270</u>    |
| <b>Organization expenses</b>      |                     |                     |
| Annual meeting                    | 39,609              | 17,931              |
| Central dues                      | 229,672             | 211,904             |
| Directors' fees and mileage       | 83,619              | 58,430              |
| Other directors' expenses         | <u>26,868</u>       | <u>94,958</u>       |
|                                   | <u>379,768</u>      | <u>383,223</u>      |
| <b>General expenses</b>           |                     |                     |
| Advertising                       | 413,634             | 468,469             |
| Amortization                      | 574,202             | 555,796             |
| Computer expenses                 | 1,314,602           | 1,234,056           |
| Courier and postage               | 215,425             | 156,977             |
| Employee training seminars        | 56,339              | 86,891              |
| Office                            | 136,558             | 138,790             |
| Other                             | 209,334             | 176,196             |
| Professional fees                 | 423,877             | 286,285             |
| Repairs and equipment lease       | 185,098             | 167,767             |
| Service charges and clearing fees | 1,144,502           | 1,131,165           |
| Telephone                         | 188,262             | 190,986             |
| Travel and meetings               | 246,542             | 219,578             |
| Wealth management expenses        | <u>610,461</u>      | <u>522,520</u>      |
|                                   | <u>5,718,836</u>    | <u>5,335,476</u>    |
| <b>Total operating expenses</b>   | <u>\$18,409,158</u> | <u>\$17,417,562</u> |

The accompanying notes are an integral part of these financial statements

**CHINOOK CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED OCTOBER 31, 2010**

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**1. NATURE OF OPERATIONS**

- a) The credit union is incorporated under the Credit Union Act of the Province of Alberta and operates branches in Brooks, Hussar, Strathmore, Drumheller, Bassano, Lomond, Hanna, Fort Macleod, Nanton, Vulcan, and Claresholm. The credit union serves members in the trading area of its branches.
- b) 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 of Alberta (Province) will ensure that the Corporation carries out this obligation.
- c) Amalgamation

Effective September 1, 2010, Chinook Credit Union Ltd. of Brooks, Alberta amalgamated with Macleod Savings and Credit Union Ltd. of Claresholm, Alberta to form the amalgamated entity, Chinook Credit Union Ltd.

On amalgamation, all common and investment shares of each predecessor credit union were converted share for share into an equal number of common or investment share with a par value of one dollar each of the amalgamated credit union. In these Financial Statements, the amalgamation has been accounted for as pooling of interest and, as a result, the Balance Sheet, Statement of Income, Comprehensive Income, the Statement of Members' Equity and Statement of Cash Flows have been prepared as though Chinook Credit Union Ltd. and Macleod Savings and Credit Union Ltd. had been combined since inception. Under this method, the Financial Statements reflect the combined historical carrying values of the credit union for each of the periods presented. All intercompany balances and transactions were eliminated upon amalgamation. Comparative figures have been presented as if the predecessor credit unions were amalgamated prior to that period.

The summarized net assets of each of the predecessor credit unions as at September 1, 2010, were as follows:

|                   | <u>Chinook</u>       | <u>Macleod</u>       |
|-------------------|----------------------|----------------------|
| Total assets      | \$ 583,115,461       | \$ 150,461,496       |
| Total liabilities | <u>538,592,755</u>   | <u>139,943,999</u>   |
| Net Assets        | <u>\$ 44,522,706</u> | <u>\$ 10,517,497</u> |

The summarized results of operations for the predecessor credit unions for the period November 1, 2009 to August 31, 2010 were as follows:

|   |                     |                   |
|---|---------------------|-------------------|
| Revenue   | 21,428,842          | \$ 5,801,124      |
| Financial and operating expenses                      | <u>19,160,834</u>   | <u>5,634,630</u>  |
| Earnings before income taxes and patronage allocation | 2,268,008           | 166,494           |
| Patronage allocation                                  | <u>64,268</u>       | <u>-</u>          |
| Income before taxes                                   | 2,203,740           | 166,494           |
| Income taxes  | <u>465,000</u>      | <u>37,341</u>     |
| Net income  | <u>\$ 1,738,740</u> | <u>\$ 129,153</u> |

**CHINOOK CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are prepared by Management in accordance with Canadian generally accepted accounting principles (GAAP).

The credit union follows Canadian 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) Investments

Investments in securities are valued at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. They are purchased with the intention to hold them to maturity. Gains and losses on disposal of securities are included in income in the year in which they occur. Mortgage pools are carried at amortized cost. Premiums on the mortgage pools are amortized on a straight line basis over the term of the mortgage, to reduce income recognized on the investments which is recorded on an accrual basis.

b) Cash

Cash is comprised of cash on hand, the current account with Credit Union Central and items in transit and is designated as held-for-trading.

c) Loans to Members

Member loans are recorded at amortized cost, less any allowance for credit losses plus accrued interest. Member loans considered uncollectible are written off.

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 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. Loans, or portions of loans considered uncollectible are written off.

Loan fees are expensed when incurred. Mortgage prepayment penalties are included in income when charged.

**CHINOOK CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

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d) Allowance for loan impairment

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

- i) A specific provision 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.
- ii) A collective or non-specific provision 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) Translation of foreign currencies

Foreign currency assets and liabilities are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenue and expenses are translated at the average exchange rate prevailing during the year. Realized and unrealized gains and losses on foreign currency are included in the Statement of Income and Comprehensive Income. The Credit Union is subject to exchange rate risk as the value of the Canadian dollar exchange fluctuates in relation to the foreign currency.

f) Property and equipment

Land is recorded at cost. Other property and equipment are reported at cost less accumulated amortization. Amortization is recorded at the following annual rates:

|                             |                 |                     |
|-----------------------------|-----------------|---------------------|
| Buildings                   | 2.50% - 4.00%   | straight line basis |
| Furniture & equipment       | 20.00% - 40.00% | straight line basis |
| Computer equipment/software | 10.00% - 40.00% | straight line basis |
| Leaseholds improvements     | 10.00% - 20.00% | straight line basis |
| Vehicles                    | 33.33%          | straight line basis |

The annual rates established are based on the estimated useful lives as determined by management.

Gains and losses on the disposal of property and equipment are recorded in the Statement of Income in the year of disposal.

**CHINOOK CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

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g) Impairment of Long Lived Assets

The Credit Union evaluates the carrying value of long lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In cases where the undiscounted expected cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset group exceeds its fair value, as determined by the discount future cash flows of the asset group. The Credit Union has not recorded any impairment as of October 31, 2010.

h) Leases

Leases that transfer substantially all the benefits and inherent risks of ownership of the property to the Credit Union are recorded as capital leases. The present value of the payments under the leases is included in Property and Equipment and obligation under capital lease included in Accounts payable and accrued liabilities on the Consolidated Balance Sheet. All other leases are classified as operating leases, in which case the total expense to be paid over the lease term is amortized on a straight line basis over the lease term.

i) Unauthorized overdrafts

At the end of each fiscal year, unauthorized overdrafts are reviewed and those considered to be uncollectible are written off.

j) Income taxes

The credit union follows the asset and liability method of accounting for income taxes. Under this method future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying value and their respective tax values. Future tax liabilities and assets are measured using substantially enacted tax rates expected to be in effect when the asset or liability is expected to be settled. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

k) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument, or index. From time to time the credit union offers deposit products which the return on investment to members is contingent upon certain events such as the percentage change in certain equity linked indexes. The deposit liability is restated at year end to reflect any changes in amounts due to members as a result of changes to the index. Gains or losses are reflected in net income unless the credit union has mitigated it's risk, whereby the gain or loss on the deposit product is offset to the gain or loss on the host contract resulting in no change to current income or financial position. In the current year, no gains or losses occurred.

**CHINOOK CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

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l) Other income - service charges, rent and fees

Other income is recorded as earned and collection is reasonably assured. Other income consists of the following:

|                                    | <b>2010</b>         | <b>2009</b>         |
|------------------------------------|---------------------|---------------------|
| Service charges, commissions, fees | \$ 3,021,934        | \$ 2,919,546        |
| Prepayment loan fees               | 362,032             | 597,021             |
| Wealth management revenue          | 736,145             | 619,164             |
| Insurance commissions              | 286,977             | 383,643             |
| Gain (loss) on sale of assets      | (152)               | 70                  |
| Other                              | <u>404,737</u>      | <u>427,923</u>      |
|                                    | <u>\$ 4,811,673</u> | <u>\$ 4,947,367</u> |

m) Comprehensive Income

Comprehensive income includes net income and other comprehensive income (OCI).

OCI is comprised of unrealized fair value gains and losses from available for sale financial instruments.

Accumulated OCI (AOCI) includes unrealized fair value gains and losses arising from available for sale financial instruments. When the underlying securities are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into income in the statement of income.

n) Financial instruments

All financial instruments, including derivatives, are included in the credit union's balance sheet and measured at fair value upon initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes recognized in net income (loss). Held-to-maturity financial assets, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Investments classified as available-for-sale are measured at fair value with changes in fair value included within comprehensive income (loss) until the investment is disposed of, at which time the change in fair value is included in the net income (loss). If the fair value of an available for sale financial instrument is not available the investment is measured at cost.

Pursuant to these standards, the credit union has classified cash and cash equivalents as held for trading; loans and account receivable have been classified as loans and receivables; accounts payable and member deposits have been classified as other liabilities. Investments have been classified as indicated below.

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

**CHINOOK CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2010**

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Investments in securities that are classified as available-for-sale are initially recognized at acquisition cost and subsequently re-measured at fair value at each reporting date. Chinook Credit Union Ltd. utilizes 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 of publicly traded securities is based on their quoted market prices. All other securities fair value is determined by discounting the expected future cash flows at current market rates.

Investments in securities that are classified as held for trading are recorded at fair value.

Chinook Credit Union Ltd. recognizes interest income as earned, and investment gains and losses when realized. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income and recognized in income when realized. For investments held for trading, realized and unrealized gains and losses are recorded in income.

The credit union is required to identify and measure embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the statement of income in the period the change occurs. The credit union has no investment contracts which include embedded derivatives that require separate accounting treatment as of October 31, 2010.

o) Future accounting pronouncements

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standard Board (AcSB) has confirmed that IFRS will replace Canadian GAAP for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As all credit union's are specifically scoped into the definition of a publicly accountable enterprise. As such, the credit union will be required to prepare the Fiscal 2012 Financial Statements including comparative information for 2011 in compliance with IFRS.

The Credit Union's project plan is underway and the standards that are expected to have a significant impact on the Credit Union's recognition, measurement, presentation and disclosure of its financial statements continue to be assessed in 2011.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and have begun an analysis of the expected areas of impact on the Credit Union. The Credit Union expects to complete the detailed Diagnostic and Impact assessment with respect to IFRS conversion in 2011.

**CHINOOK CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
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Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standard Board (IASB) throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2012, and therefore applicable to the first Financial Statements, including comparatives and opening IFRS balance sheet. The IFRS project plan includes activities to ensure the credit union monitors these changes. At this point in the project, the credit union is not able to reasonably estimate the quantitative impact of transitioning to IFRS on the Financial Statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

New Canadian accounting standards have been issued with respect to accounting for business combinations. This amended standard requires additional use of fair value measurements, recognition of additional liabilities and increased disclosure. In addition, it requires a different accounting treatment for negative goodwill and step acquisitions. Adoption of this standard may have a material effect the credit unions method of accounting for business combinations in future periods, should one occur. This section is effective for the business combinations with an acquisition date on or after January 1, 2011, early adoption is permitted. Upon adoption of this standard the credit union is required to adopt consolidated financial statements and non-controlling interest.

These two standards require a change in measurement of non-controlling interest and require the change to be presented as part of shareholders' equity on the balance sheet. The income statement of the controlling parent will include all of the subsidiaries results and present an between the controlling interest and non-controlling interest. These standards align Canadian GAAP with IFRS. There is currently no impact on the credit union relating to this standard.

**CHINOOK CREDIT UNION LTD.**  
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**3. INVESTMENTS AND ACCRUED INTEREST**

|                            | <b>2010</b>          |                                    |                      | <b>2009</b>          |
|----------------------------|----------------------|------------------------------------|----------------------|----------------------|
|                            | Within<br>1 year     | Maturities<br>Over 1<br>to 5 years | Total<br>Book Value  | Total<br>Book Value  |
| <b>HELD TO MATURITY</b>    |                      |                                    |                      |                      |
| Term deposits              | \$ 80,900,000        | \$ 2,072,881                       | \$ 82,972,881        | \$ 71,936,352        |
| Mortgage pools             |                      |                                    |                      |                      |
| - principal                | -                    | 809,973                            | 809,973              | 4,113,871            |
| Accrued interest           | <u>54,970</u>        | <u>47,576</u>                      | <u>102,546</u>       | <u>307,534</u>       |
| Subtotal                   | 80,954,970           | 2,930,430                          | 83,885,400           | 76,357,757           |
| <b>AVAILABLE FOR SALE</b>  |                      |                                    |                      |                      |
| Credit Union Central       |                      |                                    |                      |                      |
| Alberta Limited Shares(1a) | -                    | 7,640,000                          | 7,640,000            | 7,450,000            |
| Others                     | -                    | 37,482                             | 37,482               | 16,676               |
| Accrued Interest           | <u>-</u>             | <u>95,048</u>                      | <u>95,048</u>        | <u>152,963</u>       |
| Subtotal                   | -                    | 7,735,048                          | 7,772,530            | 7,619,639            |
| <b>HELD FOR TRADING</b>    |                      |                                    |                      |                      |
| Interest Rate Swaps        | <u>-</u>             | <u>-</u>                           | <u>-</u>             | <u>136,607</u>       |
| <b>Total</b>               | <u>\$ 80,954,970</u> | <u>\$ 10,665,478</u>               | <u>\$ 91,620,448</u> | <u>\$ 84,114,003</u> |
| Effective Book Yield(1b)   | <u>1.02 %</u>        | <u>2.66 %</u>                      | <u>1.21 %</u>        | <u>2.97 %</u>        |

1(a) These securities have no specific maturity.

1(b) The effective book yield does not include accrued interest.

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

**4. OTHER ASSETS**

|                            | <b>2010</b>       | <b>2009</b>         |
|----------------------------|-------------------|---------------------|
| Accounts receivable        | \$ 306,242        | \$ 713,242          |
| Prepaid expenses and other | <u>574,663</u>    | <u>492,007</u>      |
|                            | <u>\$ 880,905</u> | <u>\$ 1,205,249</u> |

Prepaid expenses and other, includes the fair value of derivative instruments, (held for trading assets), as discussed in note 2(k). The fair values of the derivative instruments as at October 31, 2010 were \$287,423 (2009 - \$278,530 ). Deposit products pursuant to this derivative instrument is interest due to members on RRSP's and classified as held for trading liabilities in the same amounts.

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**5. LOANS TO MEMBERS**

|                        | <b>2010</b>           |                       |                          | <b>2009</b>           |                       |                          |
|------------------------|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|
|                        | Recorded<br>Loan      | Allowance             | Net<br>Carrying<br>Value | Recorded<br>Loan      | Allowance             | Net<br>Carrying<br>Value |
| Consumer Loans         | \$ 54,412,435         | \$ (768,864)          | \$ 53,643,571            | \$ 56,051,880         | \$ (681,820)          | \$ 55,370,060            |
| Residential Mortgages  | 284,526,705           | (237,011)             | 284,289,694              | 277,314,845           | (448,092)             | 276,866,753              |
| Commercial Loans       | 63,088,450            | (595,813)             | 62,492,637               | 61,990,912            | (868,275)             | 61,122,637               |
| Commercial Mortgages   | 133,708,460           | (178,809)             | 133,529,651              | 134,859,166           | -                     | 134,859,166              |
| Agricultural Loans     | 54,286,780            | (409,692)             | 53,877,088               | 54,110,627            | (347,608)             | 53,763,019               |
| Agricultural Mortgages | <u>22,724,787</u>     | <u>-</u>              | <u>22,724,787</u>        | <u>20,334,181</u>     | <u>-</u>              | <u>20,334,181</u>        |
|                        | 612,747,617           | (2,190,189)           | 610,557,428              | 604,661,611           | (2,345,795)           | 602,315,816              |
| Accrued Interest       | <u>2,536,173</u>      | <u>(83,531)</u>       | <u>2,452,642</u>         | <u>2,427,149</u>      | <u>(74,214)</u>       | <u>2,352,935</u>         |
|                        | <u>\$ 615,283,790</u> | <u>\$ (2,273,720)</u> | <u>\$ 613,010,070</u>    | <u>\$ 607,088,760</u> | <u>\$ (2,420,009)</u> | <u>\$ 604,668,751</u>    |

The allowance consists of:

|                        | <b>2010</b>           |                      |                     | <b>2009</b>           |                      |                     |
|------------------------|-----------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
|                        | Specific<br>Allowance | General<br>Allowance | Total               | Specific<br>Allowance | General<br>Allowance | Total               |
| Consumer Loans         | \$ 327,642            | \$ 425,871           | \$ 753,513          | \$ 259,791            | \$ 422,029           | \$ 681,820          |
| Residential Mortgages  | 146,329               | 171,277              | 317,606             | 118,164               | 329,928              | 448,092             |
| Commercial Loans       | 613,548               | 76,630               | 690,178             | 775,545               | 92,731               | 868,276             |
| Commercial Mortgages   | -                     | -                    | -                   | -                     | -                    | -                   |
| Agricultural Loans     | 55,000                | 373,892              | 428,892             | 54,086                | 293,521              | 347,607             |
| Agricultural Mortgages | <u>-</u>              | <u>-</u>             | <u>-</u>            | <u>-</u>              | <u>-</u>             | <u>-</u>            |
| Total                  | <u>\$ 1,142,519</u>   | <u>\$ 1,047,670</u>  | <u>\$ 2,190,189</u> | <u>\$ 1,207,586</u>   | <u>\$ 1,138,209</u>  | <u>\$ 2,345,795</u> |

There were \$5,958,218 (2009 - \$1,728,325) in impaired loans at year end included in the above amounts.

Loans to members mature as follows:

|                        | Up to<br>12 mos       | 13 to<br>24 mos       | 25 to<br>36 mos       | 37 to<br>48 mos      | 49+<br>mos            | Total                 | Weighted<br>Average<br>Yield |
|------------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|------------------------------|
| Consumer Loans         | \$ 28,253,419         | \$ 6,586,447          | \$ 4,586,180          | \$ 3,525,301         | \$ 11,461,088         | \$ 54,412,435         | 4.61 %                       |
| Res Mortgages          | 55,928,235            | 53,830,420            | 49,696,515            | 62,796,322           | 62,275,213            | 284,526,705           | 4.42 %                       |
| Commercial Loans       | 29,983,477            | 6,304,106             | 8,315,720             | 3,179,240            | 15,305,907            | 63,088,450            | 4.35 %                       |
| Commercial Mortgages   | 44,165,289            | 39,184,528            | 31,641,704            | 10,671,131           | 8,045,808             | 133,708,460           | 5.27 %                       |
| Agricultural Loans     | 28,445,861            | 5,640,385             | 3,853,589             | 6,268,475            | 10,078,470            | 54,286,780            | 4.58 %                       |
| Agricultural Mortgages | <u>6,164,876</u>      | <u>4,885,601</u>      | <u>2,808,226</u>      | <u>2,827,901</u>     | <u>6,038,183</u>      | <u>22,724,787</u>     | <u>4.98 %</u>                |
| Totals                 | <u>\$ 192,941,157</u> | <u>\$ 116,431,487</u> | <u>\$ 100,901,934</u> | <u>\$ 89,268,370</u> | <u>\$ 113,204,669</u> | <u>\$ 612,747,617</u> | <u>4.64 %</u>                |
| Effective book yield   | <u>4.62 %</u>         | <u>5.12 %</u>         | <u>5.07 %</u>         | <u>4.37 %</u>        | <u>3.73 %</u>         | <u>4.64 %</u>         |                              |

The effective book yield does not include accrued interest.

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

|                              | <b>2010</b>         | <b>2009</b>         |
|------------------------------|---------------------|---------------------|
| Allowance, beginning of year | \$ <u>2,345,795</u> | \$ <u>2,276,864</u> |
| Charge for loan impairment:  |                     |                     |
| Non-specific                 | <u>84,000</u>       | <u>134,000</u>      |
| Deduct:                      |                     |                     |
| Amounts written off          | <u>(239,606)</u>    | <u>(65,069)</u>     |
| Allowance, end of year       | \$ <u>2,190,189</u> | \$ <u>2,345,795</u> |

**6. PROPERTY AND EQUIPMENT**

|                          | <b>2010</b>         |                             | <b>2009</b>         |                     |
|--------------------------|---------------------|-----------------------------|---------------------|---------------------|
|                          | Cost                | Accumulated<br>Amortization | Net                 | Net                 |
| Land and Parking Lot     | \$ 1,999,194        | \$ 39,915                   | \$ 1,959,279        | \$ 1,194,127        |
| Buildings                | 10,960,268          | 3,152,607                   | 7,807,661           | 8,112,027           |
| Furniture &<br>equipment | 1,793,112           | 1,524,270                   | 268,842             | 338,810             |
| Computer equipment       | 3,810,636           | 2,141,837                   | 1,668,799           | 1,781,533           |
| Leasehold improvements   | 130,665             | 116,292                     | 14,373              | 5,942               |
| Vehicles                 | <u>-</u>            | <u>-</u>                    | <u>-</u>            | <u>9,371</u>        |
|                          | <u>\$18,693,875</u> | <u>\$6,974,921</u>          | <u>\$11,718,954</u> | <u>\$11,441,810</u> |

Amortization in respect of the above property and equipment for the year amounted to \$906,711 (2009 - \$876,194).

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**7. DEPOSIT ACCOUNTS**

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.

|                  | <b>2010</b>           | <b>2009</b>           |
|------------------|-----------------------|-----------------------|
| Demand Deposits  | \$ 256,838,628        | \$ 249,730,248        |
| Term Deposits    | 358,181,531           | 356,346,842           |
| RRIF             | 10,800,993            | 10,328,234            |
| RRSP             | 41,753,202            | 43,335,087            |
| RESP             | <u>927,799</u>        | <u>842,769</u>        |
|                  | 668,502,153           | 660,583,180           |
| Accrued interest | <u>5,003,455</u>      | <u>5,498,559</u>      |
|                  | <u>\$ 673,505,608</u> | <u>\$ 666,081,739</u> |

Concentra Financial acts as the trustee of the Registered Plans offered to members. Under an agreement with Concentra Financial, contributions to the plans, as well as interest earned on them, are deposited in the credit union.

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

|                         | On demand             | Up to<br>12 months    | 13 to<br>24 months   | 25 to<br>36 months   | 37 to<br>48 months   | 49+<br>months        | Total                 | Weighted<br>Average<br>Yield |
|-------------------------|-----------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|------------------------------|
| Demand Deposits         | \$ 256,838,628        | \$ -                  | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ 256,838,628        | 0.390 %                      |
| Term Deposits           | -                     | 204,099,593           | 43,274,030           | 51,497,113           | 43,973,399           | 15,337,396           | 358,181,531           | 2.580 %                      |
| RRIF                    | -                     | 5,288,825             | 1,907,817            | 2,476,652            | 677,101              | 450,598              | 10,800,993            | 2.880 %                      |
| RRSP                    | -                     | 20,554,462            | 6,662,343            | 6,636,860            | 3,824,257            | 4,075,280            | 41,753,202            | 2.980 %                      |
| RESP                    | <u>-</u>              | <u>521,302</u>        | <u>102,763</u>       | <u>162,300</u>       | <u>94,036</u>        | <u>47,398</u>        | <u>927,799</u>        | <u>2.290 %</u>               |
| Totals                  | <u>\$ 256,838,628</u> | <u>\$ 230,464,182</u> | <u>\$ 51,946,953</u> | <u>\$ 60,772,925</u> | <u>\$ 48,568,793</u> | <u>\$ 19,910,672</u> | <u>\$ 668,502,153</u> | <u>1.770 %</u>               |
| Effective<br>book yield | <u>0.390 %</u>        | <u>1.51 %</u>         | <u>3.36 %</u>        | <u>3.57 %</u>        | <u>3.04 %</u>        | <u>2.72 %</u>        | <u>1.770 %</u>        |                              |

The effective book yield does not include accrued interest.

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**8. CONTINGENT LIABILITIES AND COMMITMENTS**

a) Authorized Borrowings

The credit union has established an authorized overdraft of \$17,700,000 CDN including \$1,250,000 US with Credit Union Central (Central). In both cases, the authorized overdraft bears interest at Central prime plus or minus the applicable discount or margin of Central in effect from time to time and is secured by a security interest in all present and future accounts, book debts, instruments, deposits and all monies payable by Central to the Credit Union. No balance was outstanding at October 31, 2010.

The credit union has established a term loan of \$24,600,000 CDN with Credit Union Central and bears interest at Central prime plus or minus the applicable discount or margin of Central in effect from time to time. No balance was outstanding at October 31, 2010. Security is the same as the authorized overdraft.

b) Credit Commitments

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the credit union participates in various off-balance sheet (not included on the Balance Sheet) financial instruments. It subjects all of these financial instruments to its normal credit standards, financial controls and risk management and monitoring procedures.

To ensure that its members receive funds when needed, the credit union issues financial instruments with contractual amounts representing credit risk which carry the same requirements for collateral security as loans. It makes the following instruments available to its members:

- i) Guarantees and standby letters of credit represent irrevocable assurances that the credit union will pay if a member cannot meet his obligations to a third party.
- ii) Documentary and commercial letters of credit require the credit union to honour drafts presented by third parties upon completion of specific activities.
- iii) 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.
- iv) 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 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 future cash requirements.

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As at October 31, 2010 the credit union had the following amounts outstanding:

|   | <b>2010</b>  | <b>2009</b>  |
|---|--------------|--------------|
| <b>Financial instruments whose amounts represent credit risk:</b>                       |              |              |
| Guarantees & standby letters of credit commitments to extend credit with a maturity of: | \$ 1,210,978 | \$ 1,154,725 |
| 1 year or less  | 103,851,933  | 96,017,277   |
| Beyond one year   | 5,296,482    | 12,499,907   |

c) Lease Commitments

- i) The credit union has leased space for its Drumheller branch that commenced January 1, 2000 for ten years with an option to renew for a further five years. A renewal period has been entered into extending the lease for three years starting January 1, 2010 for rent of \$6,540 per month, plus common area costs.
- ii) The credit union is leasing space for it's Hanna Branch. The lease contract agreement ended November 30, 2008, however the the Credit Union exercised its right in the expired lease to start leasing on a month to month basis at a rate of \$1,300 per month. The credit union is responsible for all telephone and all business taxes and rates in connection with any business carried on upon the premise.
- iii) The credit union has signed a lease for space for it's sub branch in Brooks commencing July 1, 2008 for a total of eighteen months ending November 30, 2009 at a rate of \$700 per month. The lease contract has expired and is being leased month to month. The credit union is responsible for all utilities and all business taxes and rates in connection with any business carried on upon the premise.

d) Card Loyalty

The credit union participates in a card loyalty program whereby members earn points redeemable for merchandise or travel. At October 31, 2010, the credit union's contingent liability if all points were redeemed would amount to \$273,494. Based on experience, management estimates that 50% of the total outstanding points are likely to be redeemed in the future and accordingly have accrued a liability of \$136,747 in these financial statements.

e) Contingent liabilities

In the normal course of its business activities, the Credit Union is subject to claims and legal actions that may be made by former employees, members, suppliers and others. An accrual is made in the Financial Statements if it can be reasonably estimated and it is likely that a future event will confirm that the liability has been incurred. Accruals are not made if the occurrence of the confirming future event is not determinable. No provision has been provided for in the current year.

**CHINOOK CREDIT UNION LTD.**  
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f) Celero Solutions Inc.

The credit union has signed an agreement with Celero Solutions Inc., for a 10 year commitment effective April 1, 2007. The commitment involves a variable cost component for computer support and administration. Management estimates that the commitment to be \$700,000 per annum, adjusted for inflation.

g) Pension Plan

The credit union has a defined contribution pension plan for employees which were under employment contract with Macleod Savings & Credit Union Ltd. prior to the merger on September 1, 2010 (note 1). Total cash payments for employee future benefits for 2010, consisting of cash contributed to its defined contribution plan was \$88,000 (2009 - \$76,000).

h) Other

The credit union has entered into a contract with an architect for professional services for a new Drumheller branch. Costs under the contract are yet to be determined.

**9. ALLOCATION DISTRIBUTABLE**

The Board of Directors declared a 2.75% dividend (2009 - 3.00%) in the amount of \$850,436 (2009 - \$872,803). The dividend consists of dividends on non-registered common shares in the amount of \$474,805 and dividends on registered common shares in the amount of \$375,631, of which \$156,669 will be paid subsequent to year end by way of issuance of additional registered and non registered common shares. The balance was paid prior to year end in the same manner.

The Credit Union has declared a patronage rebate to members in the current year at \$4 per share (non-registered shares) for a total amount of \$64,268 (2009 - \$nil), which was paid prior to the year end date by issuance of additional common shares.

**10. COMMON SHARES**

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

- i) an unlimited number may be issued;
- ii) a par value of \$1, but fractional shares may be issued;
- iii) transferable only in restricted circumstances;
- iv) non-assessable;
- v) redemption 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 and Credit Union By-Laws.

A membership in the credit union requires the purchase of a minimum of five (5) shares upon joining the credit union.

The Corporation does not guarantee common shares which represent "at risk" capital. Common share purchases can qualify for Registered Plan status under the Canadian Income Tax Act and such shares are identified as RRSP common shares.

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Movements in common shares for the year are as follows:

|  | <b>2010</b>                | <b>2009</b>                |
|--|----------------------------|----------------------------|
| <b>Balance, beginning of year</b>              | \$31,220,180               | \$25,990,328               |
| Issued and redeemed for cash, net              | 1,548,586                  | 3,262,718                  |
| Previous years credit union contributions paid | 872,953                    | 1,967,134                  |
| Current years credit union contributions paid  | <u>758,034</u>             | <u>-</u>                   |
| <b>Balance, end of year</b>                    | <u><u>\$34,399,753</u></u> | <u><u>\$31,220,180</u></u> |

Common shares held in member RRSP were in the amount of \$15,415,357 (2009 - \$13,550,116).

**11. FINANCIAL INSTRUMENTS**

**Fair Values**

The amounts are designed to approximate the fair values of the credit union's financial instruments using the valuation methods and assumptions described below. The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as property & equipment or intangible assets. 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 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 (rounded to nearest thousands):

|                             | <b>2010</b>              |                         |                            | <b>2009</b>             |                         |                            |
|-----------------------------|--------------------------|-------------------------|----------------------------|-------------------------|-------------------------|----------------------------|
|                             | Book Value               | Fair Value              | Fair Value Over Book Value | Book Value              | Fair Value              | Fair Value Over Book Value |
| Cash                        | \$ 13,733                | \$ 13,733               | \$ -                       | \$ 18,190               | \$ 18,190               | \$ -                       |
| Investments                 | 91,621                   | 91,621                  | -                          | 84,114                  | 84,166                  | 52                         |
| Loans to members            | 613,010                  | 612,072                 | (938)                      | 604,669                 | 609,910                 | 5,241                      |
| Other financial assets      | <u>594</u>               | <u>594</u>              | <u>-</u>                   | <u>992</u>              | <u>992</u>              | <u>-</u>                   |
| Subtotal                    | <u><u>\$ 718,958</u></u> | <u><u>718,020</u></u>   | <u><u>(938)</u></u>        | <u><u>707,965</u></u>   | <u><u>713,258</u></u>   | <u><u>5,293</u></u>        |
| Less:                       |                          |                         |                            |                         |                         |                            |
| Liabilities                 |                          |                         |                            |                         |                         |                            |
| Deposit accounts            | 673,506                  | 675,380                 | (1,874)                    | 666,082                 | 673,086                 | (7,004)                    |
| Other financial liabilities | <u>1,984</u>             | <u>1,984</u>            | <u>-</u>                   | <u>1,928</u>            | <u>1,928</u>            | <u>-</u>                   |
|                             | <u><u>\$ 43,468</u></u>  | <u><u>\$ 40,656</u></u> | <u><u>\$ (2,812)</u></u>   | <u><u>\$ 39,955</u></u> | <u><u>\$ 38,244</u></u> | <u><u>\$ (1,711)</u></u>   |

**CHINOOK CREDIT UNION LTD.  
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The following methods and assumptions were used to estimate the fair value of financial instruments:

- i) The fair value of cash, other assets and other liabilities are assumed to approximate book values, due to their short term nature.
- ii) The estimated fair value for floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically reprice to market.
- iii) 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.

## **12. FINANCIAL RISK MANAGEMENT**

The credit union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, liquidity risk and interest rate 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 financial loss due to borrowers failing to meet their financial obligations. Credit risk arises from both on and off balance sheet transactions. The credit union's credit risk is significantly influenced by movements in the Alberta economy which in recent years has shown strong growth and occasional sharp declines. The loan portfolio is managed to ensure diversification. Further, policies and procedures are established to promote sound lending practises and ensure prompt attention to problem loans.

#### *Risk Measurement*

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

Loan exposures are managed and monitored through facility limits for individual borrowers and a credit review process. These reviews ensure that the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets and underwriting of its borrowers. 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. Credit risk for counter-parties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

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**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 derivative, 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-owner needs.

*Risk Measurement*

The Credit Union's risk position is measured based on rates charged to member-owners. The Treasury department manages day-to-day market risk within approved policies and reports on a regular basis to management's Asset Liability Committee (ALCO) to ensure policy compliance. Management provides quarterly reports on these matters to the Board's Audit Finance Committee. Tools to measure this risk include: gap analysis, which shows the sensitivity between interest sensitive assets and interest sensitive liabilities; and income sensitivity analysis.

**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.

*Risk Measurement*

The assessment of the credit union's liquidity position reflects management's estimates, assumptions and judgement pertaining to current and prospective market conditions and the related behaviour of its members and counterparties. 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.

**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 the maturities of its financial assets. The interest rate risk is being managed within prudent guidelines. The table below summarizes amounts by maturity dates and effective interest rates, (rounded to nearest thousands).

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| 2010                   | Floating Rate      | Within 1 Year     | 1 to 5 Years      | Non-rate Sensitive | Total             |
|------------------------|--------------------|-------------------|-------------------|--------------------|-------------------|
| Assets                 |                    |                   |                   |                    |                   |
| Cash                   | \$ 12,648          | \$ -              | \$ -              | \$ 1,085           | \$ 13,733         |
| Investments            | 9,891              | 79,146            | 2,387             | 197                | 91,621            |
| <i>Effective Yield</i> | 2.18 %             | 1.01 %            | 2.66 %            |                    | 1.21 %            |
| Member loans           | 230,757            | 86,984            | 294,704           | 565                | 613,010           |
| <i>Effective Yield</i> | 3.51 %             | 5.35 %            | 5.41 %            |                    | 4.68 %            |
| Other                  | -                  | -                 | -                 | 594                | 594               |
|                        | <u>\$ 253,296</u>  | <u>\$ 166,130</u> | <u>\$ 297,091</u> | <u>\$ 2,441</u>    | <u>\$ 718,958</u> |
| Member deposits        | \$ 271,054         | \$ 175,628        | \$ 181,176        | \$ 45,648          | \$ 673,506        |
| <i>Effective Yield</i> | 0.55 %             | 2.52 %            | 3.27 %            |                    | 1.77 %            |
| Other                  |                    |                   |                   | 1,984              | 1,984             |
|                        | <u>271,054</u>     | <u>175,628</u>    | <u>181,176</u>    | <u>47,632</u>      | <u>675,490</u>    |
| Net gap                | <u>\$ (17,758)</u> | <u>\$ (9,498)</u> | <u>\$ 115,915</u> | <u>\$ (45,191)</u> | <u>\$ 43,468</u>  |
| % of assets            | (2.43)%            | (1.30)%           | 15.86 %           | (6.18)%            | 5.95 %            |
| 2009                   |                    |                   |                   |                    |                   |
| Net gap                | \$ (21,372)        | \$ 1,983          | \$ 96,265         | \$ (37,229)        | \$ 39,647         |
| % of assets            | (2.97)%            | 0.28 %            | 13.38 %           | (5.17)%            | 5.51 %            |

**13. RELATED PARTY TRANSACTIONS**

- The credit union, in accordance with its policy, grants consumer loans to its management and staff at preferred rates. Mortgages and authorized overdrafts bear interest at the rate in effect when the loan is issued. Directors pay regular member rates on loans.
- Directors, management and staff of the credit union had \$32,253,122 (2009 - \$18,167,450) in loans outstanding authorized at October 31, 2010. All loans were in good standing at that date.
- Directors, management and staff had \$9,796,899 (2009 - \$6,133,860) in deposits and common shares with the credit union at October 31, 2010.
- The credit union has entered into a contract with a former executive of Macleod Savings Credit Union, and has been hired to assist in the merger between Macleod Savings Credit Union and Chinook Credit Union. The contract will be in effect from May 1, 2010 to April 30, 2011.

**14. DIRECTORS' FEES AND MILEAGE EXPENSE**

|  | 2010             | 2009             |
|--|------------------|------------------|
| Directors' fees and committee remuneration | \$ 53,850        | \$ 33,140        |
| Directors' mileage                         | <u>29,769</u>    | <u>25,290</u>    |
|  | <u>\$ 83,619</u> | <u>\$ 58,430</u> |

Remuneration paid to directors range from \$1,500 (2009 - \$2,750) to \$8,100 (2009 - \$6,950) with an average of \$4,075 (2009 - \$4,314).

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**15. SEGMENTED INFORMATION**

The credit union conducts its business through market segments that offer different products and services - investment business, mortgage lending and non-mortgage lending. The investment business market segment provides investment income to the credit union on cash balances in excess of the amount required to provide funds for lending activities and maintain operations at the credit union. The lending business market segments provide a variety of credit products and services designed specifically for each particular group of borrowers. As all lending activities at the credit union share similar economic characteristics, lending activities have been aggregated into a single market segment.

Results for these market segments are based on the credit union's internal financial reporting systems and are consistent with the accounting policies followed in preparation of the credit union's financial statements.

Other business is comprised of items such as rental, banking service charges, treasury operations and revenue and expenses not expressly attributed to the business units.

**2010**

|   | Investing<br>Business | Lending<br>Business   | Other<br>Business    | Total                 |
|---|-----------------------|-----------------------|----------------------|-----------------------|
| Revenues from members and outside parties | \$ 816,060            | \$ 27,255,983         | \$ 4,811,673         | \$ 32,883,716         |
| Financial expenses                        | (1,879,220)           | (9,766,434)           | (11,781)             | (11,657,435)          |
| Charge for loan impairment                | -                     | (84,000)              | -                    | (84,000)              |
| Gross Margin                              | (1,063,160)           | 17,573,549            | 4,799,892            | 21,142,281            |
| Patronage allocation                      |                       |                       |                      | (64,268)              |
| Amortization                              |                       |                       |                      | (906,711)             |
| Other operating expenses                  |                       |                       |                      | (17,502,447)          |
| Income taxes                              |                       |                       |                      | (595,452)             |
| Net Income                                |                       |                       |                      | <u>\$ 2,073,403</u>   |
| Assets                                    | <u>\$ 91,620,448</u>  | <u>\$ 613,010,070</u> | <u>\$ 26,333,234</u> | <u>\$ 730,963,752</u> |

**2009**

|   | Investing<br>Business | Lending<br>Business   | Other<br>Business    | Total                 |
|---|-----------------------|-----------------------|----------------------|-----------------------|
| Revenues from members and outside parties | \$ 1,816,469          | \$ 27,897,801         | \$ 4,947,367         | \$ 34,661,637         |
| Financial expenses                        | (1,847,604)           | (11,349,565)          | (101,821)            | (13,298,990)          |
| Loan impairment                           | -                     | (134,000)             | -                    | (134,000)             |
| Gross Margin                              | (31,135)              | 16,682,236            | 4,845,546            | 21,228,648            |
| Patronage allocation                      |                       |                       |                      | -                     |
| Amortization                              |                       |                       |                      | (876,194)             |
| Other operating expenses                  |                       |                       |                      | (16,541,368)          |
| Income taxes                              |                       |                       |                      | (712,544)             |
| Net income                                |                       |                       |                      | <u>\$ 3,098,542</u>   |
| Assets                                    | <u>\$ 84,114,003</u>  | <u>\$ 604,668,751</u> | <u>\$ 30,837,065</u> | <u>\$ 719,619,819</u> |

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**16. INCOME TAXES**

In accordance with its policy as described in Note 2(J), income taxes are as follows:

|                                       | <b>2010</b>       | <b>2009</b>       |
|---------------------------------------|-------------------|-------------------|
| Current income taxes                  | \$ 595,542        | \$ 584,544        |
| Future income taxes expense (benefit) | <u>-</u>          | <u>128,000</u>    |
|                                       | <u>\$ 595,542</u> | <u>\$ 712,544</u> |

The statutory rate is approximately equal to the effective tax rate on both taxable and accounting income. Future tax asset of \$NIL is related to the following tax effects of temporary timing differences:

|   | <b>2010</b>   | <b>2009</b>   |
|---|---------------|---------------|
| Property and equipment  | \$ (235,000)  | \$ (235,000)  |
| Allowance for credit losses in excess of amounts deducted for income tax purposes | 189,000       | 189,000       |
| Future benefit costs accrued and unrealized exchange gain(loss)                   | <u>46,000</u> | <u>46,000</u> |
|   | <u>\$ -</u>   | <u>\$ -</u>   |

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

**18. EMPLOYEE FUTURE BENEFIT**

The credit union has established a plan for providing retirement benefits to qualifying employees. The cost of these benefits is accrued over the estimated service life of employees. The benefits are based upon years of service and salary during the final years of employment with the credit union.

The credit union has recorded a cumulative liability of \$257,986 (2009 - \$194,050). The liability is included in accounts payable and the amounts were expensed to personnel expenses. Changes to the liability are as follows:

|                            | <b>2010</b>       | <b>2009</b>       |
|----------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 194,050        | \$ 141,370        |
| Payments in year           | (8,211)           | -                 |
| Charged to expense         | <u>72,147</u>     | <u>52,680</u>     |
| Balance, end of year       | <u>\$ 257,986</u> | <u>\$ 194,050</u> |

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**19. CAPITAL DISCLOSURES**

The Capital in the Credit Union, as outlined below totals \$57,908,209 (2009 \$53,887,596 ). Capital is administered using a set of Policies that have been approved by the Board of Directors. These policies were developed to ensure the Credit Union will be compliant with all legislative requirements. Actions in these policies include but are not limited to:

- (i) Establishing limits in which Patronage rebates and dividends are to be paid to ensure Capital Adequacy requirements adhere to legislation;
- (ii) establishing guidelines for the redemption of common shares; and
- (iii) setting reporting periods to ensure the Board of Directors are aware of the status of the credit union's capital.

Externally imposed regulations by the Credit Union Act require the credit union to maintain capital equal to the greater of:

- (i) 4% of total assets; and
- (ii) 8% of risk weighted assets.

At October 31, 2010 the Credit Union has met this requirement as their Capital Adequacy position is:

- 1. Capital as a % of risk weighted assets is 12.72% (2009 - 11.64%)
- 2. Capital as a % of assets is 7.92% (2009 - 7.49%).

Summary of quantitative data for the Credit Unions's Capital:

|                                      | <b>2010</b>          | <b>2009</b>          |
|--------------------------------------|----------------------|----------------------|
| Common shares/contributed surplus    | \$ 34,399,753        | \$ 31,220,180        |
| Retained earnings                    | 20,917,527           | 19,515,968           |
| Share of Central's retained earnings | 1,386,590            | 1,140,286            |
| Allocation distributable             | 156,669              | 872,953              |
| General allowance for credit risk    | <u>1,047,670</u>     | <u>1,138,209</u>     |
| Total Capital                        | <u>\$ 57,908,209</u> | <u>\$ 53,887,596</u> |

**20. PRIOR PERIOD RECLASSIFICATION**

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