

DECEMBER 31
2010
FINANCIAL STATEMENTS
THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED



**FIRE SERVICES
CREDIT UNION**

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED:

We have audited the accompanying financial statements of The Fire Department Employees Credit Union Limited (operating as Fire Services Credit Union), which comprise the balance sheet as at December 31, 2010, and the statements of members' equity, comprehensive income, income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Fire Department Employees Credit Union Limited as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Mississauga, Ontario
February, 24, 2011

Retford Lane Bates LLP
Licensed Public Accountants

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

BALANCE SHEET

AS AT DECEMBER 31, 2010

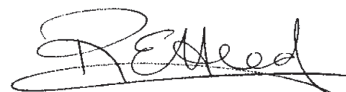
	2010	2009
ASSETS		
Cash resources	\$ 3,030,139	\$ 1,403,979
Investments (Note 3)	16,877,153	15,489,735
Loans to members (Note 4 and 5)	47,686,994	50,197,547
Other assets (Note 6)	229,160	247,823
Property and equipment (Note 7)	707,196	723,649
	\$ 68,530,642	\$ 68,062,733
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Members' deposits (Note 8)	\$ 63,113,376	\$ 62,866,580
Other liabilities (Note 9)	199,371	185,841
Member shares (Note 10)	2,052,405	2,068,095
	65,365,152	65,120,516
Members' equity		
Retained earnings	3,086,836	2,934,017
Accumulated other comprehensive income	78,654	8,200
	3,165,490	2,942,217
	\$ 68,530,642	\$ 68,062,733

Commitments (Note 4)

Approved by the Board



Director



Director

See accompanying notes to the financial statements.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

STATEMENT OF MEMBERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Retained earnings		
Balance, beginning of the year	\$ 2,934,017	\$ 2,868,221
Net income for the year	152,819	65,796
Retained earnings, end of the year	3,086,836	2,934,017
Accumulated other comprehensive income		
Balance, beginning of the year	8,200	57,870
Other comprehensive income (loss) for the year	70,454	(49,670)
Balance, end of the year	78,654	8,200
Total members' equity, end of the year	\$ 3,165,490	\$ 2,942,217

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Net income for the year	\$ 152,819	\$ 65,796
Other comprehensive income		
Unrealized gain (loss) on interest rate swap agreements designated as cash flow hedges, net of tax effect (Note 17)	84,770	(34,462)
Unrealized loss on investments classified as available for sale, net of tax effect	(14,316)	(15,208)
Other comprehensive income (loss) for the year	70,454	(49,670)
Comprehensive income, for the year	\$ 223,273	\$ 16,126

See accompanying notes to the financial statements.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Interest income (Note 12)		
Member loans	\$ 2,319,713	\$ 2,567,900
Investment income	357,016	283,060
	2,676,729	2,850,960
Interest expense		
Member deposits (Note 13)	897,635	1,233,241
Class A investment shares	65,984	65,984
	963,619	1,299,225
Net interest income	1,713,110	1,551,735
Provision for impaired loans (Note 5)	187,731	120,053
Net interest income after loan losses	1,525,379	1,431,682
Other income	153,367	201,939
Net interest and other income	1,678,746	1,633,621
Operating expenses		
Administrative expenses	598,371	576,432
Amortization	58,778	66,160
Deposit insurance premium	55,046	55,140
Salaries and benefits	899,559	856,035
	1,611,754	1,553,767
Income before unrealized gains and taxes	66,992	79,854
Unrealized gain on ABCP 2008 Limited Partnership units (Note 3)	114,780	-
Income before income taxes	181,772	79,854
Income taxes		
Current	28,953	7,442
Future	-	6,616
	28,953	14,058
Net income for the year	152,819	65,796

See accompanying notes to the financial statements.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Cash flows from operating activities		
Net income for the year	\$ 152,819	\$ 65,796
Adjustments for:		
Amortization	58,778	66,160
Provision for impaired loans (<i>Note 5</i>)	187,731	120,053
Unrealized gain on ABCP 2008 LP units	(114,780)	-
Future income taxes	-	6,616
	284,548	258,625
Changes in non-cash working capital balances:		
Other current assets	(2,422)	(70,268)
Other liabilities	13,530	122,274
	295,656	310,631
Cash flows from investing activities		
Purchase of property and equipment	(16,664)	(15,522)
Purchase of software	(4,576)	(2,643)
Loans to members - net	2,322,823	4,281,688
Investments	(1,202,184)	(3,610,488)
	1,099,399	653,035
Cash flows from financing activities		
Members' deposits	246,796	(379,371)
Membership shares	(15,691)	(15,204)
	231,105	(394,575)
Increase in cash resources	1,626,160	569,091
Cash resources, beginning of the year	1,403,979	834,888
Cash resources, end of the year	\$ 3,030,139	\$ 1,403,979
Interest And Income Taxes Paid:		
Interest paid	\$ 1,082,179	\$ 1,525,596
Income taxes paid (net of refunds)	\$ (22,148)	\$ (33,634)

See accompanying notes to the financial statements.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

NATURE OF BUSINESS

The Fire Department Employees Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994, and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of the Deposit Insurance Corporation of Ontario ("DICO") and Central 1 Credit Union ("Central 1"). The Credit Union provides financial products and services to members throughout south-western Ontario.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and their basis of application is consistent with the preceding year. Outlined below are the accounting policies considered to be significant.

THE CREDIT UNIONS AND CAISSES POPULAIRES ACT, 1994 (THE "ACT")

Regulations to the Act specify that certain items are required to be disclosed in the financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, estimates and interpretations have been made in presenting this information.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

INVESTMENTS

Investments designated as held for trading are carried at fair value based primarily on published market prices. Gains and losses are included in investment income for the period in which they arise.

Some investments that have fixed payments and terms to maturity have been designated as held to maturity where the Credit Union has the positive intention and ability to hold them to maturity. These investments are measured at amortized cost and investment income is recorded using the effective interest rate method over the terms of the investments.

Investments designated as loans and receivables are accounted for at amortized cost and income thereon accrues using the effective interest method.

Investments classified as available for sale are carried at fair value where such a value can be reliably measured, otherwise they are carried at cost. When recorded, unrealized gains and losses are recognized directly in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in accumulated other comprehensive income, is recognized in net income.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SOFTWARE

Software licenses and costs related to installation are recorded at original cost less accumulated amortization. Amortization is calculated on a declining balance basis at the rate of 30% per year. Maintenance and other charges are expensed over the period to which they relate.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at acquisition cost less accumulated amortization. Amortization is calculated using the methods set out below applied to the cost of the assets, at annual rates based on their estimated useful lives as follows:

Asset	Rate	Method
Building	3%	declining balance
Building improvements	8%	declining balance
Furniture and equipment	20%	declining balance
Computer equipment	30%	declining balance

LOANS TO MEMBERS

Loans to members are stated at amortized cost which includes amounts advanced and applicable charges, less repayments. Interest is recorded using the effective yield method for all loans other than impaired loans.

A loan is classified as impaired when a specific provision has been established or a write-off taken or when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal or interest. A loan is also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days.

Once a loan is classified as impaired, all accrued interest is included in the specific provision. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

ALLOWANCE FOR IMPAIRED LOANS

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgements about current economic conditions. If the circumstances under which these estimates and judgements were made change, there could be a significant change to the allowance for impaired loans. The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by amounts written off, net of recoveries.

Provisions are determined on an item-by-item basis and reflect the associated estimated credit loss. The provision is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount, which is generally the fair value of any security underlying the loan, net of expected costs of realization.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Write-offs are recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

MEMBERS' DEPOSITS

Members' deposits are recorded at amortized cost. Interest expense is recorded using the effective interest rate method over the terms of the deposits.

MEMBER SHARES

As the Credit Union's member shares are redeemable at the option of the holder, they are presented in the balance sheet as financial liabilities. Notwithstanding their financial statement classification, these liabilities qualify as capital for regulatory purposes. Dividends or other payments related to member shareholdings are reported in the statement of income as a financial expense.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union uses interest rate swaps in order to manage interest rate exposure. Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases as interest rate swap agreements.

These instruments are used to hedge the exposure to interest rate changes and have been designated as cash flow hedges. Each hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the group of assets or liabilities being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured.

The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognized in other comprehensive income, while gains and losses in fair value relating to the ineffective portion are recognized in net income. The amounts and timing of future cash flows are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the forecasted transaction is eventually recognized in the statement of income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of income.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

COMPREHENSIVE INCOME

Comprehensive income is comprised of net income and other comprehensive income (“OCI”). For the Credit Union, OCI represents the change in members’ equity during the year that is attributable to unrealized gains and losses on financial assets classified as available for sale and the change in the fair value of the effective portion of cash flow hedging instruments, net of taxes. Consequently, the financial statements include a statement of comprehensive income for the changes in these items during the year, while the cumulative changes in OCI are included in accumulated other comprehensive income, which is included in members’ equity.

INCOME TAXES

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

TRANSLATION OF FOREIGN CURRENCIES

The monetary assets and liabilities of the Credit Union denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Revenues and expenses are translated at the actual rates in effect at the transaction date. Exchange gains or losses are included in earnings.

2. FUTURE CHANGES IN ACCOUNTING POLICY

In January 2010, the Canadian Accounting Standards Board introduced International Financial Reporting Standards (IFRS) into Part 1 of the Canadian Institute of Chartered Accountants Handbook to replace Canadian GAAP for publicly accountable enterprises, including credit unions, for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements to reflect transition to the IFRS at January 1, 2010 (the “Transition Date”).

Standards that are expected to have the most significant impact on the Credit Union’s recognition, measurement, presentation and disclosure in its financial statements have been identified as those affecting the Credit Union’s loan loss allowance and property and equipment. Although transition adjustments will be necessary, the net impact on retained earnings is not expected to be significant.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

3. INVESTMENTS

	2010	2009
Held for trading		
ABCP 2008 Limited Partnership	\$ 375,273	\$ 278,130
Loans and receivables		
Central 1 liquidity reserve deposit	4,811,309	4,764,805
Accrued interest	27,562	17,117
	4,838,871	4,781,922
Available for sale		
Credit Union Central of Ontario shares	1,999	94,099
Central 1		
Class A Shares	160,415	169,891
Class E Shares	355,300	263,200
Term deposits	5,919,869	4,400,000
Government bonds and notes	4,770,084	5,024,078
Corporate notes and term deposits	202,986	299,380
Accrued interest	252,356	179,035
	11,663,009	10,429,683
	\$ 16,877,153	\$ 15,489,735

CENTRAL 1 CREDIT UNION LIQUIDITY RESERVE DEPOSIT

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 7% of the Credit Union's total assets updated at each calendar quarter end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

CENTRAL 1 CREDIT UNION SHARES

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain a minimum level of investment in shares of Central 1. The minimum level of investment is determined annually based on the Credit Union's total assets at year end. The merger was affected through the acquisition of CUCO's net assets and the Credit Union has received the Class A and Class E shares in Central 1.

No market exists for the shares of CUCO or Central 1. The shares may be surrendered upon withdrawal from membership. The proceeds and terms of payment are to be negotiated at the time.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

3. INVESTMENTS *(continued)*

ABCP 2008 LIMITED PARTNERSHIP

As a pre-condition of the merger to form Central 1, Credit Union Central of Ontario was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership ("ABCP LP"), to acquire these investments funded by member credit unions in proportion to their share investment in CUJO. The Credit Union owns ABCP LP units equal to 0.3713% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

Approximately 80% of the ABCP held in the partnership was subject to a court-sanctioned restructuring process known as the "Montreal Accord". The remaining investment was in Apex Trust which was restructured by the sponsor. Both restructurings involved replacing the original short-term ABCP with various classes of long-term notes. The notes bear a variety of interest rates between 0% and 5% with most floating with a premium or discount to the Bankers' Acceptance rate.

As at December 31, 2010, the ABCP LP determined or estimated the principal characteristics of its notes, including the interest rate, maturity date and credit rating. It then estimated the yield that a potential investor would require to purchase each class of notes. The ABCP LP used this information to calculate a fair value for each class of notes. Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

Although there has been some trading activity in the notes held by ABCP LP, it is felt that an active market on which a fair value could be based has not been established for the following reasons: there are only a small number of brokers and buyers; transactions are not regularly occurring; there is a very wide difference between bid and ask values and final prices are negotiated; and relative to a discounted cash flow value, sales are occurring on a distressed basis.

The Credit Union carries its investment at its share of the fair value of the partnership as estimated by the general partner. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

4. LOANS TO MEMBERS

	2010	2009
Mortgages	\$ 38,301,918	\$ 39,814,509
Personal	8,265,252	9,100,359
Commercial	1,253,145	1,304,709
Accrued interest	73,923	76,026
	47,894,238	50,295,603
Less allowance for impaired loans <i>(Note 5)</i>	207,244	98,056
	\$ 47,686,994	\$ 50,197,547

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

4. LOANS TO MEMBERS *(continued)*

The loan classifications set out above are as defined in the regulations to the Act. The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. The policy dictates that total personal loans may not exceed 30% of assets, residential mortgages (term loans and lines of credit combined) may not exceed 72% of assets, and commercial mortgages may not exceed 3% of assets. Additionally, the Credit Union has a maximum limit on the value by type of loan to individuals and connected parties.

Mortgage loans are repayable in monthly blended principal and interest instalments over a maximum term of ten years based on a maximum amortization period of forty years.

Personal and commercial loans are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period up to ten years.

Line of credit loans are repayable on a revolving credit basis and require minimum monthly payments of at least interest only.

All loans, except for fixed-rate mortgage loans, are open and, at the option of the borrower, may be paid off at any time without notice.

As at December 31, 2010, the Credit Union was committed to the issuance of mortgage loans to members in the aggregate amount of \$nil (2009 - \$291,000).

As at December 31, 2010, the approved and unutilised lines of credit and overdraft limits amount to \$15,738,290 (2009 - \$15,415,443).

During the year, the Credit Union administered mortgages under the MPP program on behalf of Concentra Financial. Members' mortgage loans under the program at year end totaled \$880,068 (2009 - \$1,786,494).

5. ALLOWANCE FOR IMPAIRED LOANS

	2010	2009
Balance at beginning of year	\$ 98,056	\$ 131,653
Loans written off	(95,585)	(168,045)
Loans recovered	17,042	14,395
	19,513	(21,997)
Provision charged to operations	187,731	120,053
Balance at end of year	\$ 207,244	\$ 98,056

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

5. ALLOWANCE FOR IMPAIRED LOANS *(continued)*

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with DICO's by-law governing such allowances.

	Allowance for impaired loans balance		Aggregate impaired loans	
	2010	2009	2010	2009
Mortgages	\$ -	\$ -	\$ -	\$ -
Personal	207,244	98,056	123,074	97,804
	\$ 207,244	\$ 98,056	\$ 123,074	\$ 97,804

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due, but not considered impaired.

	2010	2009
Mortgages	\$ 44,648	\$ -
Personal	32,495	100,134
Total	\$ 77,143	\$ 100,134

6. OTHER ASSETS

	2010	2009
Accrued interest on swap agreement	\$ 22,531	\$ 34,985
Interest rate swaps	59,890	-
Prepaid expenses	28,014	31,824
Software	116,785	137,870
Income taxes receivable	-	41,204
Future income taxes	1,940	1,940
	\$ 229,160	\$ 247,823

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

7. PROPERTY AND EQUIPMENT

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 330,000	\$ –	\$ 330,000	\$ 330,000
Building	399,684	190,898	208,786	215,243
Building improvements	208,812	98,059	110,753	120,384
Furniture and equipment	233,868	200,822	33,046	28,149
Computer equipment	303,436	278,825	24,611	29,873
	\$ 1,475,800	\$ 768,604	\$ 707,196	\$ 723,649

Amortization expense for the year amounted to \$33,117 (2009 - \$33,553).

8. MEMBERS' DEPOSITS

	2010	2009
Chequing accounts	\$ 2,920,572	\$ 2,227,940
Savings accounts	8,348,268	8,328,833
Term deposits	30,792,843	31,386,172
Registered savings plans	15,643,016	14,994,047
Registered income funds	5,036,971	5,439,322
Accrued interest	371,706	490,266
	\$ 63,113,376	\$ 62,866,580

9. OTHER LIABILITIES

	2010	2009
Accounts payable and accrued charges	\$ 110,964	\$ 78,585
Accrued dividends on investment shares	65,984	65,984
Interest rate swaps	–	41,272
Income taxes payable	22,423	–
	\$ 199,371	\$ 185,841

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

10. MEMBER SHARES

	2010	2009
Membership shares	\$ 402,806	\$ 418,496
Class A Investment Shares	1,649,599	1,649,599
	\$ 2,052,405	\$ 2,068,095

AUTHORIZED SHARE CAPITAL

The authorized share capital of the Credit Union consists of the following:

- i) An unlimited number of Class A non-cumulative, non-voting, non-participating special shares, (Class A Investment Shares), issuable in series, with an issue price of \$1 each.
- ii) An unlimited number of Class B non-cumulative, non-voting, non-participating special shares, (Class B Shares), issuable in series.

In addition to these two classes of shares, the Credit Union is authorized to issue an unlimited number of membership shares, subject to its by-laws which prescribe a minimum of one membership share to be owned by each member, with an issue price of \$100 each.

Membership shares rank junior to Class A Investment Shares and to Class B Shares for priority in the declaration and payment of dividends and in the event of the liquidation, dissolution or winding-up of the Credit Union. In addition, Class B Shares rank junior to Class A Investment Shares. Both classes of shares are redeemable at the amounts paid thereon, plus declared and unpaid dividends, under various conditions and in accordance with the terms set out in the articles of the Credit Union, and subject to certain restrictions which are set out in governing legislation.

ISSUED AND OUTSTANDING

CLASS A INVESTMENT SHARES, SERIES 1

On May 23, 2003 (the "Date of Issuance"), the Credit Union offered a maximum of 2,500,000 Class A Investment Shares ("Class A Shares") and issued 1,649,599 Class A Shares to its members at an issue price of \$1 per share, for total proceeds of \$1,649,599.

Class A Shares are non-cumulative, non-voting, non-participating special shares with a dividend rate as may be determined from time to time by the board of directors.

The holders of Class A Shares are entitled to receive dividends if, as and when declared by the board of directors. Dividends for Class A shares are dependent upon, in part, the earnings and/or retained earnings of the Credit Union, and upon its ability to comply with the regulatory requirements as described in Note 11 to the financial statements. Dividends may be paid in cash or in the form of Class A Shares. Dividends for the Series 1 Class A Shares are non-cumulative and payable annually to members of record holding the shares on December 31, 2010. If and when declared, dividends will be paid after each fiscal year end and before each annual general meeting of members.

THE FIRE DEPARTMENT EMPLOYEES CREDIT UNION LIMITED

(OPERATING AS FIRE SERVICES CREDIT UNION)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

10. MEMBER SHARES *(continued)*

Redemption of Class A Shares in any fiscal year may not exceed 10% of the total Class A Shares outstanding at the end of the previous fiscal year. The redemption amount will be the aggregate of the paid up amount thereon, plus any unpaid declared non-cumulative dividends. Redemption requests are subject to board approval, other than due to death of the shareholder, and will only be considered in the 30 day period following the Credit Union's fiscal year end. The Credit Union has the option to purchase for cancellation all or any part of the outstanding Class A Shares at any time after five years from the Date of Issuance.

A cash dividend of \$65,984 (2009 - \$65,984), payable to Class A shareholders, was accrued at year end and included in other liabilities (see Note 9).

CLASS B SHARES

The Board of Directors has not yet created any series of Class B Shares and, therefore, as at December 31, 2010 there are no Class B Shares outstanding.

MEMBERSHIP SHARES

As a condition of membership, each member must hold one share at an issue price of \$100 per share. As at December 31, 2010, there were 4,028 membership shares outstanding (2009 - 4,421 membership shares outstanding). Shares are redeemable on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

Dividends on membership shares may be declared by the board of directors, subject to availability of sufficient earnings to meet regulatory capital requirements of the Act described in Note 11 to the financial statements.

11. CAPITAL ADEQUACY

The Credit Union's capital management policy outlines the overall objectives to ensure that the Credit Union has sufficient capital needed to address the inherent risks of the Credit Union, ensure the long-term viability of the Credit Union, and support its current and future operating plans. The processes for managing capital include setting the policy for capital management, setting policies in related areas, establishing budgets and reporting monthly to the board of directors regarding financial results and capital adequacy, in relation to the statutory minimum.

In accordance with the requirements of the Act and accompanying regulations, credit unions are required to maintain sufficient capital to meet two tests:

(a) Leverage test:

Regulatory capital must amount to at least 4.0% of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 6% of total assets.

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11. CAPITAL ADEQUACY *(continued)*

(b) Risk-weighted capital test:

Regulatory capital must amount to at least 8% of risk-weighted equivalent values. The risk weighting of assets is specified in the regulations to the Act. The Credit Union has established an internal policy to maintain regulatory capital at no less than 9% of risk-weighted equivalent values.

As at December 31, 2010, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital, as outlined in the following table:

	2010	2009
Tier 1 capital		
Membership shares	\$ 402,806	\$ 418,496
Retained earnings	3,086,836	2,934,017
Non-redeemable portion of investment capital	1,484,639	1,484,639
	4,974,281	4,837,152
Tier 2 capital		
Redeemable portion of investment capital	164,960	164,960
Non-specific loan loss provisions	108,692	31,190
	273,652	196,150
Total Regulatory Capital	\$ 5,247,933	\$ 5,033,302
Leverage test ratio:	7.7%	7.4%
Risk-weighted capital test ratio:	21.5%	19.8%

12. INTEREST INCOME

Interest income is generated as follows:

	2010	2009
Mortgage loans	\$ 1,668,450	\$ 1,772,179
Personal loans	598,722	728,273
Commercial loans	52,541	67,448
Member loans	2,319,713	2,567,900
Investments	357,016	283,060
Financial assets other than those held for trading	2,676,729	2,850,960
Investments classified as held for trading	-	-
	\$ 2,676,729	\$ 2,850,960

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13. INTEREST EXPENSE ON MEMBER DEPOSITS

Interest expense on member deposits is generated as follows:

	2010	2009
Demand	\$ 16,456	\$ 15,221
Term	468,378	665,331
Registered retirement savings plans	304,644	397,585
Registered retirement income funds	108,157	155,104
	\$ 897,635	\$ 1,233,241

14. INCOME TAXES

The Credit Union's basic statutory tax rate is approximately 16%. Any future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes. The temporary differences relate to the deductibility of capital asset amortization and the allowance for loan losses.

15. RESTRICTED PARTY TRANSACTIONS

As at December 31, 2010, the aggregate value of interest-bearing loans outstanding to directors, officers and their related parties totaled \$939,313 (2009 - \$418,940). There was no allowance for impaired loans required in respect of these loans as at December 31, 2010.

Members of the board of directors received honoraria amounting to \$41,270 in 2010 (2009 - \$41,750).

Restricted Party is defined to include a person, and the person's relatives, spouse, same sex partner or the relative of the spouse, who lives in the home and is financially dependent on the persons stated above. It also includes a person who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing partners who are under no compulsion to act. The estimated fair values of the Credit Union's financial instruments and the valuation techniques and assumptions are set out below. The valuations may vary significantly based on the judgement used in estimating the amount and timing of future cash flows. As a result, the estimated fair values are not necessarily comparable across different organizations and may not be realizable. The estimation of fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

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FOR THE YEAR ENDED DECEMBER 31, 2010

16. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

	BOOK VALUE	ESTIMATED FAIR VALUE	2010 DIFFERENCE	2009 DIFFERENCE
Assets				
Cash resources	\$ 3,030,139	\$ 3,030,139	\$ –	\$ –
Investments	16,877,153	16,902,505	25,352	16,765
Loans to members	47,686,994	47,740,847	53,853	363,895
Other	59,890	59,890	–	(7,109)
Liabilities				
Members' deposits	(63,113,376)	(63,273,644)	(160,268)	(156,034)
Other	(199,371)	(199,371)	–	34,461

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

- The fair value of cash resources are assumed to approximate their book value due to their short-term nature.
- The fair value of investments are based on quoted market values.
- The estimated fair value of variable rate loans and deposits are assumed to be equal to book value as the interest rates reprice to market on a periodic basis.
- The estimated fair value of fixed rate loans and deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

17. INTEREST RATE SWAP AGREEMENT

During the year, the Credit Union entered into an interest rate swap agreement with Central 1 in the notional amount of \$5,000,000, maturing in September 2014. For the term of the agreement, the Credit Union is obliged to pay interest based on the notional amount at the variable CDOR and in return, will receive from Central 1 a fixed rate of 2.49%. The Credit Union entered into this agreement to hedge its exposure to variable rates on residential mortgages. Hedge accounting has been applied to this agreement and, therefore, the change in the fair value of the swap has been recorded to other comprehensive income. The net difference between the interest paid and received is included in mortgage interest income.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

LIQUIDITY RISK

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to pay obligations when they fall due, including the withdrawal of members' deposits or the funding of loans to members.

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FOR THE YEAR ENDED DECEMBER 31, 2010

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

The Credit Union's liquidity management policy outlines the processes for managing liquidity risk, including maintaining high quality liquid investments, maintaining a credit facility with Central 1, and monthly reporting to the board of directors regarding the Credit Union's liquidity level, in relation to the statutory minimum. In addition, the Credit Union continually monitors cash flows, the significance of large deposits and loan commitments relative to its liquidity.

The Credit Union has available a credit facility of \$1,410,000, consisting of a Canadian dollar operating line of \$1,000,000, a U.S. dollar operating line of \$360,000 and capital markets of \$50,000. The facility is secured by a general security agreement and an assignment of book debts. At December 31, 2010, only \$13,383 of the capital market facility was utilized.

The liquidity ratio represents the ratio of assets qualifying as liquid assets under the Act to the sum of members' deposits and borrowings. The Credit Union has established an internal policy to maintain a liquidity ratio at no less than 10%. At December 31, 2010, the liquidity ratio was 29.8%.

The assets that are eligible for liquidity purposes are as follows:

	2010	2009
Cash resources	\$ 3,030,139	\$ 1,403,979
Liquidity reserve deposits with Central 1	4,811,309	4,781,922
Other deposits with Central 1	5,900,000	1,000,000
Government bonds and corporate notes	4,959,096	545,811
	\$ 18,700,544	\$ 7,731,712

CREDIT RISK

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet his or her financial obligations.

The Credit Union's credit management policy sets out the processes for managing credit risk, including the following:

- Setting a maximum amount of credit to an individual and connected parties;
- Setting a total limit by loan type;
- Performing a credit analysis (e.g. review and assess the borrower's credit history, ability to repay the loan, and character);
- Obtaining collateral when appropriate;
- Establishing loan approval limits;
- Limiting the concentration by industry for commercial loans;
- Reporting monthly to the board of directors regarding loan activities, as required by the board and the Act; and
- Procedures followed for loans in arrears.

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18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

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. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the board of directors and by the Act.

The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments:

	VARIABLE RATE	LESS THAN ONE YEAR	ONE TO FIVE YEARS	NON-RATE SENSITIVE	TOTAL	EFFECTIVE INTEREST RATE
Cash resources	\$ 3,004,019	\$ -	\$ -	\$ 26,120	\$ 3,030,139	1.1%
Investments	-	5,931,149	10,053,017	892,987	16,877,153	2.1%
Interest rate swap	-	-	5,000,000	-	5,000,000	2.5%
Loans to members	34,384,696	2,435,036	10,867,262	-	47,686,994	4.6%
Total	37,388,715	8,366,185	25,920,279	919,107	72,594,286	
Members' deposits	13,773,901	34,535,502	11,883,401	2,920,572	63,113,376	1.3%
Interest rate swap	5,000,000	-	-	-	5,000,000	1.2%
Member shares	1,649,599	-	-	402,806	2,052,405	3.2%
Total	20,423,500	34,535,502	11,883,401	3,323,378	70,165,781	
Matching gap	\$ 16,965,215	\$(26,169,317)	\$ 14,036,878	\$ (2,404,271)	\$ 2,428,505	

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union has established a policy to maintain its earnings at risk to a possible change in interest rates to no more than 15 basis points of assets. At December 31, 2010, management estimates that its exposure to a 0.25% decrease in interest rates is a decline in income equal to 1 basis point of assets and the exposure to a 0.50% increase in interest rates is an increase in earnings equal to 3 basis points of assets.

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