

INDEPENDENT AUDITORS' REPORT

To the Members of
Equity Credit Union Inc.:

We have audited the accompanying financial statements of Equity Credit Union Inc. , which comprise the balance sheet as at December 31, 2010, and the statements of operations and comprehensive income and retained earnings 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 Equity Credit Union Inc. 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 2, 2011

Retford Lane Bates LLP
Licensed Public Accountants

EQUITY CREDIT UNION INC.

BALANCE SHEET

AS AT DECEMBER 31, 2010

	2010	2009
ASSETS		
Cash resources (Note 3)	\$ 5,012,971	\$ 838,781
Investments (Note 4)	3,120,932	5,918,331
Loans to members (Note 5 and 6)	28,008,331	31,790,073
Other assets (Note 7)	64,313	67,872
Capital assets (Note 8)	394,362	41,667
	\$ 36,600,909	\$ 38,656,724
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Member deposits (Note 9)	\$ 33,677,396	\$ 35,703,406
Other liabilities (Note 10)	78,505	53,658
Member shares (Note 11)	31,840	38,180
	33,787,741	35,795,244
Retained earnings	2,813,168	2,861,480
	\$ 36,600,909	\$ 38,656,724

Commitments (Notes 5 and 16)

Approved by the Board

Director

Director

See accompanying notes to the financial statements

EQUITY CREDIT UNION INC.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Interest income (Note 13)		
Member loans	\$ 1,466,555	\$ 1,576,659
Investment income	88,046	38,383
	1,554,601	1,615,042
Interest expense		
Member deposits (Note 14)	706,701	925,429
External borrowings	-	698
	706,701	926,127
Net interest income	847,900	688,915
Provision for impaired loans (Note 6)	82,552	40,473
Net interest income after loan losses	765,348	648,442
Other income	67,778	26,175
Net interest and other income	833,126	674,617
Operating expenses		
Administrative (<i>Schedule</i>)	525,344	354,404
Deposit insurance	31,157	30,600
Salaries and benefits	333,937	276,584
	890,438	661,588
(Loss) income before income taxes	(57,312)	13,029
Income taxes (recovered)		
Current	(16,000)	(5,078)
Future	7,000	7,400
	(9,000)	2,322
Net (loss) income and comprehensive income for the year	(48,312)	10,707
Retained earnings, beginning of the year	2,861,480	2,850,773
Retained earnings, end of the year	\$ 2,813,168	\$ 2,861,480

See accompanying notes to the financial statements

EQUITY CREDIT UNION INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Cash flows from operating activities		
Net (loss) income for the year	\$ (48,312)	\$ 10,707
Items not affecting cash:		
Amortization	17,348	2,124
Provision for impaired loans	82,552	40,473
Future income taxes	7,000	7,400
	58,588	60,704
Changes in non-cash working capital:		
Other current assets	(3,441)	(22,723)
Other liabilities	24,847	1,555
	79,994	39,536
Cash flows from investing activities		
Purchase of capital assets	(370,043)	(43,791)
Loans to members - net	3,699,190	1,292,199
Investments	2,797,399	(1,655,226)
	6,126,546	(406,818)
Cash flows from financing activities		
Member deposits	(2,026,010)	563,838
Member shares	(6,340)	(880)
	(2,032,350)	562,958
Increase in cash resources	4,174,190	195,676
Cash resources, beginning of the year	838,781	643,105
Cash resources, end of the year	\$ 5,012,971	\$ 838,781
SUPPLEMENTARY INFORMATION:		
Interest paid	\$ 782,708	\$ 1,041,889
Income taxes paid (net of refunds)	(11,028)	(19,204)

See accompanying notes to the financial statements

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

Nature of business

Equity Credit Union Inc. (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 Ontario.

1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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, reasonable estimates and interpretations have been made in presenting this information.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 classified as loans and receivables are accounted for at amortized cost, using the effective interest method.

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 classified as available for sale are carried at fair value where such a value can be reliably measured, otherwise they are carried at cost. 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.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. Significant accounting policies *(continued)*

Capital assets

Capital assets are stated at acquisition cost. 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
Office equipment	20%	straight-line
Computer equipment	20%	straight-line
Safe	10%	straight-line
Computer software	100%	diminishing balance
ATM Equipment	10 years	straight-line
Leasehold improvements	50%	straight-line

Loans to members

Loans to members are stated at amortized cost. Interest income is recorded using the effective interest rate method over the terms of the loans. Loan fee income that contributes to the overall yield of a loan is incorporated into the effective interest rate and recognized in income over the term of the loan.

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 previously accrued interest is reversed and charged against current income unless the amount is fully secured. 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 which consists of specific provisions and a general provision, each of which is reviewed on a regular basis. The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs net of recoveries.

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

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. Significant accounting policies *(continued)*

Member deposits

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

Member shares

The Credit Union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of members' share accounts and the related distributions paid on such financial instruments. In accordance with these recommendations, the Credit Union's shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification. Dividends or other payments related to member shareholdings are reported in the statement of operations and comprehensive income and retained earnings as a financial expense.

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.

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 average exchange rate prevailing during the year. Exchange gains or losses are included in operations.

Derivative financial instruments

The Credit Union enters into equity-linked purchase options to manage exposure to stock market risk. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposure, the Credit Union determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge or a cash flow hedge of a specifically identified group of assets or liabilities. The Credit Union assesses, both at the inception and over the term of the hedge, whether these derivatives are highly effective in offsetting changes in fair value or cash flows of hedged assets and liabilities.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

1. Significant accounting policies *(continued)*

Derivatives that do not qualify for hedge accounting are carried at fair value on a gross basis in assets and liabilities with changes in fair value recorded in other income.

Equity-linked purchase options are used to reduce the exposure to stock market fluctuation in the returns associated with the index-linked term deposits issued to members. The premiums paid for these options are deferred in other assets and amortized to interest expense on members' deposits over the life of the options.

2. Future changes in accounting policy

In March 2009, the Canadian Accounting Standards Board reconfirmed in its second omnibus Exposure Draft 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 a credit union, we are included in the definition of a publicly accountable enterprise and, as such, we will be required to prepare the December 31, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

We have assessed the differences between our current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. Our assessment has included the potential impact of the conversion effort on our systems, internal controls over financial reporting, disclosure controls and business activities.

Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board throughout 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011 and, therefore, applicable to our first IFRS financial statements, including comparatives and opening IFRS balance sheet. Our IFRS project plan includes activities to ensure we monitor these changes. We have determined that any IFRS transitional adjustment will not negatively impact either retained earnings or capital.

3. Cash resources

The term "cash resources" as used in these financial statements consists of cash on hand, deposits maturing within one hundred days and member payroll deductions which have been made and which are in the course of being remitted.

The Credit Union has available a line of credit of \$794,730 to cover a shortfall in cash resources, if necessary, due to unanticipated volume in clearings. These lines of credit are secured by a general security agreement and an assignment of book debts covering all assets of the Credit Union and bears interest at 1.75%. At December 31, 2010, the lines of credit were not utilized.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

4. Investments

	2010	2009
<u>Loans and receivables</u>		
Central 1		
Liquidity reserve deposit	\$ 2,672,339	\$ -
Accrued interest	8,919	-
	2,681,258	-
<u>Held to Maturity</u>		
Central 1		
Liquidity reserve deposit	-	2,762,173
Term deposits	-	2,700,000
Accrued interest	-	3,074
	-	5,465,247
<u>Available for Sale</u>		
Credit Union Central of Ontario shares	1,209	53,209
Central 1 Class A shares	91,109	94,597
Central 1 Class E shares	200,700	148,700
ABCP 2008 Limited Partnership	146,556	156,478
Shares in other co-operatives (carried at cost)	100	100
	439,674	453,084
	\$ 3,120,932	\$ 5,918,331
Market Value	\$ 3,165,749	\$ 5,946,677

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

Effective July 1, 2008, Credit Union Central of Ontario (CUCO) merged with Credit Union Central of British Columbia to form a new entity, Central 1. Central 1 assumes the responsibility of being the credit union central in both provinces.

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.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

4. Investments (continued)

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.

ABCP 2008 Limited Partnership

As a pre-condition of the merger to form Central 1, CUCO 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 CUCO. The Credit Union owns ABCP LP units equal to 0.2089% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

The Credit Union carries its investment in the ABCP LP at its share of the fair value of the partnership as estimated by the general partner. Approximately 80% of the ABCP held in the partnership is subject to a court-sanctioned restructuring process known as the "Montreal Accord". The remaining investment is in Apex Trust which has been 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.

The Credit Union has accepted its proportionate share of ABCP LP's net asset value as the value of its investment at year end. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

5. Loans to members

	2010	2009
Mortgages	\$ 24,569,399	\$ 28,570,331
Personal	2,980,210	2,706,648
Commercial	599,054	592,935
Accrued interest	27,899	41,784
	28,176,562	31,911,698
Less allowance for impaired loans (Note 6)	(168,231)	(121,625)
	\$ 28,008,331	\$ 31,790,073

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

5. Loans to members *(continued)*

The loan classifications set out above are as defined in the regulations to the Act.

Mortgage and commercial loans are repayable to the Credit Union in blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty years. Merit line of credit loans, which are classified as mortgage loans, are secured by real property and are repayable on a revolving credit basis which requires minimum monthly payments.

Personal loans are repayable to the Credit Union in blended principal and interest instalments over a maximum amortization period of five years. Personal line of credit loans, which are classified as personal loans, are repayable on a revolving credit basis which requires minimum monthly repayments. Personal loans are open and, at the option of the borrower, may be repaid 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 - \$nil).

As at December 31, 2010, the approved and unused line of credit limits amount to \$3,906,120 (2009 - \$3,876,073).

6. Allowance for impaired loans

	2010	2009
Balance at beginning of year	\$ 121,625	\$ 128,730
Loans written off	(40,324)	(50,125)
Loans recovered	4,378	2,547
	85,679	81,152
Provision charged to operations	82,552	40,473
Balance at end of year	\$ 168,231	\$ 121,625

The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. The Credit Union's policy dictates that total personal loans may not exceed 45% of assets, residential mortgages may not exceed 80% of assets, and commercial mortgages may not exceed 25% of assets. Additionally, the Credit Union has a maximum limit on the value by type of loan to individuals and connected parties.

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.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

6. Allowance for impaired loans *(continued)*

Aggregate impaired loans of \$543,229 (2009 - \$311,911) was the total amount of loans identified as impaired. The related security in respect of those loans was \$438,818 (2009 - \$300,286). The amount impaired, net of the related security, was \$104,411 (2009 - \$11,625), plus a general/non-specific allowance of \$63,820 (2009 - \$110,000). The total allowance for impaired loans balance was \$168,231 (2009 - \$121,625).

	Allowance for impaired loans balance		Aggregate impaired loans	
	2010	2009	2010	2009
Mortgages	\$ 64,230	\$ -	\$ 496,848	\$ 300,286
Personal	40,181	11,625	46,381	11,625
Commercial	-	-	-	-
General	63,820	110,000	-	-
	\$ 168,231	\$ 121,625	\$ 543,229	\$ 311,911

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	\$ 372,307	\$ 547,230
Personal	29,529	24,912
Commercial	-	-
Total	\$ 401,836	\$ 572,142

7. Other assets

	2010	2009
Prepaid expenses	\$ 21,629	\$ 29,205
Income taxes receivable	16,000	11,028
Future income taxes	7,300	14,300
Index-linked derivative contracts	19,384	13,339
	\$ 64,313	\$ 67,872

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

8. Capital assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Office equipment	\$ 35,118	\$ 879	\$ 34,239	\$ -
Computer equipment	49,328	10,301	39,027	41,667
Safe	14,458	360	14,098	-
Computer software	37,714	945	36,769	-
Leasehold improvements	245,734	6,201	239,533	-
ATM Equipment	31,482	786	30,696	-
	\$ 413,834	\$ 19,472	\$ 394,362	\$ 41,667

Amortization expense for the year amounted to \$17,348 (2009 - \$2,124).

9. Member deposits

	2010	2009
Demand	\$ 2,361,386	\$ 2,175,496
Savings accounts	3,910,618	3,364,095
Term deposits	13,220,702	14,934,578
Registered savings plans	11,406,449	11,969,632
Registered income funds	2,470,749	2,876,106
Accrued interest	307,492	383,499
	\$ 33,677,396	\$ 35,703,406

Term deposits

Term deposits issued for periods of one to five years may not generally be withdrawn prior to maturity. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a waiting period.

Registered plans

Concentra Trust is the trustee of the registered plans offered to the members. Under an agreement with the trust company, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates, by the Credit Union on behalf of the trust company.

Index-linked deposits

The Credit Union has issued and outstanding \$166,971 (2009 - \$166,403) of an Index-Linked products to its members. These deposits have maturities of 3 and 5 years and pay interest to the depositors, at the end of the respective terms, based on the performance of the S&P / TSX 60 Index.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

9. Member deposits (continued)

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the S&P / TSX 60 Index associated with these products. The Credit Union has paid Central 1 an amount discounted over the term of the deposit to fully fund the Credit Union's liability to Central 1. At the end of the term of the deposit, Central 1 pays to the Credit Union an amount equal to the amount that will be paid to the depositors based on the performance of the S&P / TSX 60 Index.

10. Other liabilities

	2010	2009
Accounts payable and accrued charges	\$ 59,121	\$ 40,319
Index-linked derivative contracts	19,384	13,339
	<u>\$ 78,505</u>	<u>\$ 53,658</u>

11. Member shares

As a condition of membership, each member must hold 4 shares with an issue price of \$5 each. As at December 31, 2010, there were 1,592 members (2009 - 1,909). Shares are redeemable only 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 12 to the financial statements.

12. 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, primarily comprising of membership shares, any other class of qualifying capital that may be issued, retained earnings and the non-specific/general allowance for impaired loans, must amount to at least 4.0% (2009 - 4.25%) of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 6% of total assets.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

12. Capital adequacy (continued)

(b) Risk-weighted capital test:

Regulatory capital, as defined above, 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.

Total regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

	2010	2009
<u>Tier 1 capital</u>		
Member shares	\$ 31,840	\$ 38,180
Retained earnings	2,813,168	2,861,480
Total Tier 1 capital	2,845,008	2,899,660
<u>Tier 2 capital</u>		
Non-specific loan loss provisions	63,820	110,000
Total Regulatory Capital	\$ 2,908,828	\$ 3,009,660
Leverage test ratio:	7.9%	7.8%
Risk-weighted capital test ratio:	26.9%	26.8%

13. Interest income

Interest income is generated as follows:

	2010	2009
Mortgage loans	\$ 1,256,376	\$ 1,352,560
Personal loans	167,640	192,746
Commercial loans	42,539	31,353
Member loans	1,466,555	1,576,659
Investments classified as held for trading	52,794	30,168
Investments classified as loans and receivables	20,260	3,074
Investments classified as available for sale	14,992	5,141
Financial assets other than those held for trading	1,554,601	1,615,042
Investments classified as held for trading	-	-
	\$ 1,554,601	\$ 1,615,042

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

14. Interest expense on member deposits

Interest expense on member deposits is generated as follows:

	2010	2009
Demand	\$ 12,531	\$ 9,939
Term	348,371	497,479
Registered savings plans	285,718	333,169
Registered income funds	60,081	84,842
	\$ 706,701	\$ 925,429

15. 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.

	2010	2009
Allowance for impaired loans	\$ 2,600	\$ 12,330
Capital assets	(2,200)	(2,730)
Allowances on investments	6,900	-
	\$ 7,300	\$ 9,600

16. Commitments

The Credit Union has entered into an agreement to lease office space for a ten year term expiring May 2020. The Credit Union has the option to renew the lease for two further five year terms. The lease requires minimum lease payments (operating and maintenance costs not included) estimated as follows:

2011	\$76,500
2012	78,000
2013	80,000
2014	81,000
2015	91,000
thereafter	<u>416,000</u>
	<u>\$822,500</u>

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

17. Restricted party transactions

As at December 31, 2010, the aggregate value of interest-bearing loans outstanding to directors, officers and their related parties totalled \$1,817,013 (2009 - \$1,804,215). There was no allowance for impaired loans required in respect of these loans as at December 31, 2010.

The regulations require the financial statements to disclose a general description of the nature, number and aggregate value of Restricted Party transactions, as defined, and the allowance for loan losses related to such transactions. Restricted Party has been defined to include a person, and the person's relative, spouse, or relative of the spouse, 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.

18. 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.

	Book value	Estimated fair value	2010 Difference	2009 Difference
Assets				
Cash resources	\$ 5,012,971	\$ 5,012,971	\$ -	\$ -
Investments	3,120,932	3,120,960	28	28,346
Loans to members	28,008,331	28,277,432	269,101	27,378
Other	19,384	19,384	-	-
Liabilities				
Member deposits	(33,677,396)	(33,923,232)	(245,836)	(407,997)
Other	(19,384)	(19,384)	-	-

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.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

19. 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.

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 (see Note 3) 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 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 of maintaining a ratio at not less than 12%. At December 31, 2010, the liquidity ratio is 23.0% (2009 - 17.8%).

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

	2010	2009
Cash resources	\$ 5,012,971	\$ 838,781
Liquidity reserve deposits with Central 1	2,672,340	2,762,173
Other deposits with Central 1	-	2,700,000
	\$ 7,685,311	\$ 6,300,954

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;
- Employing risk based pricing;
- 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.

The Credit Union's exposure to the risk of loss on impaired or potentially impaired loans is set out in Note 6.

EQUITY CREDIT UNION INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

19. 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	\$ 4,889,729	\$ -	\$ -	\$ 123,242	\$ 5,012,971	1.36%
Investments	-	2,681,258	-	439,674	3,120,932	1.20%
Loans to members	13,727,604	1,954,000	12,326,727	-	28,008,331	4.50%
Total	18,617,333	4,635,258	12,326,727	562,916	36,142,234	
Member deposits	6,610,396	16,856,000	7,649,000	2,562,000	33,677,396	1.87%
Member shares	-	-	-	31,840	31,840	-
Total	6,610,396	16,856,000	7,649,000	2,593,840	33,709,236	
Matching gap	\$ 12,006,937	\$ (12,220,742)	\$ 4,677,727	\$ (2,030,924)	\$ 2,432,998	

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union has established a policy for its earnings at risk to a possible change in interest rates to within the regulatory requirement of 15 basis points of assets. At December 31, 2010, management estimates that its exposure to a 1% change in interest rates is between 0 and 10 basis points of assets.

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances of its foreign currency liabilities are not matched with the balances of its foreign currency assets.

It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency assets to its foreign currency liabilities (i.e. members' deposits denominated in US dollars). Consequently, the impact on earnings of foreign currency exchange risk is not significant.

Net foreign exchange gains of \$746 (2009 - \$27) have been included in other income on the statement of operations and comprehensive income and retained earnings for the year ended December 31, 2010.

EQUITY CREDIT UNION INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
Administrative		
Amortization	\$ 17,348	\$ 2,124
Annual dues	7,894	8,672
Annual meeting	8,871	9,395
Board and committee expenses	17,790	13,777
Board and committee honoraria	19,500	18,975
Bonding	38,578	26,604
Credit reports and applications	6,069	4,216
Data equipment maintenance	41,387	38,687
Education and promotion	11,922	7,821
Government fees	1,476	1,795
Insurance	11,578	10,954
Marketing	63,312	31,341
Miscellaneous	3,857	7,977
Moving costs	29,341	14,700
Office supplies and expenses	55,601	32,631
Postage and courier	14,149	12,636
Professional fees	38,408	33,366
Registered plans administration fees	7,093	9,058
Rent	88,161	32,398
Service charges	28,759	25,459
Telephone	8,172	6,431
Travel	2,476	2,634
Utilities	3,602	2,753
	\$ 525,344	\$ 354,404

See accompanying notes to the financial statements