

**ROCKY CREDIT UNION LTD.**  
**ROCKY MOUNTAIN HOUSE, ALBERTA**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2009**

# Hawkings Epp Dumont LLP

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## Chartered Accountants

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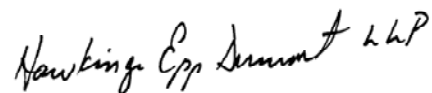
### AUDITORS' REPORT

To the Members  
Rocky Credit Union Ltd.  
Beaumont, Alberta

We have audited the accompanying balance sheet of Rocky Credit Union Ltd. (the "Credit Union") as at October 31, 2009 and the related statements of 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 in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Edmonton, Alberta  
November 26, 2009

HAWKINGS EPP DUMONT LLP  
Chartered Accountants

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**MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL REPORTING**

To the Members  
Rocky Credit Union Ltd.

Management has the responsibility for preparing the accompanying financial statements and ensuring that all information in the Annual Report is consistent with these statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles and the requirements of the *Credit Union Act*.

In discharging its responsibility for the integrity and fairness of the financial statements, as well as for the accounting systems from which they are derived, management maintains the necessary systems of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The ultimate responsibility to members for the financial statements lies with the Board of Directors. The Board appoints an Audit Committee to review financial statements with management in detail and to report to the Board prior to its approval to publish the financial statements.

The Board appoints external auditors to audit the financial statements and to meet separately with both the Audit Committee and management to review their findings. The external auditors report directly to the members. The external auditors have full and free access to the Audit Committee to discuss their audit, as well as their findings concerning the integrity of the Credit Union's financial reporting and the adequacy of its systems of internal controls.

Rocky Mountain House, Alberta  
November 26, 2009



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Daniel Johnson  
Chief Executive Officer



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Randall Sugden  
VP Finance

**ROCKY CREDIT UNION LTD.**

**BALANCE SHEET**

**AS AT OCTOBER 31, 2009**

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash	\$ 645,556	\$ 539,744
Current Account Deposits	-	4,105,029
Investments and Accrued Interest (Note 3)	54,919,132	73,390,350
Income Taxes Receivable	319,134	560,430
Loans to Members and Accrued Interest (Note 4)	205,689,477	213,170,078
Other Assets (Note 5)	554,680	312,891
Property and Equipment (Note 6)	<u>1,552,060</u>	<u>1,586,860</u>
	<u>\$ 263,680,039</u>	<u>\$ 293,665,382</u>
<u>LIABILITIES</u>		
Operating Loan (Note 7)	\$ 745,982	\$ -
Accounts Payable and Accrued Liabilities	454,348	855,577
Members' Deposit Accounts and Accrued Interest (Note 8)	<u>235,467,900</u>	<u>266,392,098</u>
	<u>236,668,230</u>	<u>267,247,675</u>
<u>MEMBERS' EQUITY</u>		
Allocation Distributable (Note 9)	492,034	-
Common Shares (Note 10)	12,885,093	13,135,756
Retained Earnings	<u>13,634,682</u>	<u>13,281,951</u>
	<u>27,011,809</u>	<u>26,417,707</u>
	<u>\$ 263,680,039</u>	<u>\$ 293,665,382</u>

**ON BEHALF OF THE BOARD:**

\_\_\_\_\_ Director

\_\_\_\_\_ Director

The accompanying notes are an integral part of these financial statements

**ROCKY CREDIT UNION LTD.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED OCTOBER 31, 2009**

	<u>2009</u>	<u>2008</u>
Financial Income		
Interest from members' loans	\$ 9,712,136	\$ 13,151,450
Investment income	<u>895,514</u>	<u>1,904,657</u>
	<u>10,607,650</u>	<u>15,056,107</u>
Financial Expenses		
Interest on members' deposit accounts	6,035,111	7,918,041
Interest on financing	<u>976</u>	<u>174</u>
	<u>6,036,087</u>	<u>7,918,215</u>
Financial Margin	4,571,563	7,137,892
Provision for Loan Impairment (Note 4)	<u>72,709</u>	<u>1,676,308</u>
Financial Margin After Provision for Loan Impairment	4,498,854	5,461,584
Other Income	<u>1,435,561</u>	<u>1,768,922</u>
Gross Margin	<u>5,934,415</u>	<u>7,230,506</u>
Operating Expenses		
Personnel	2,685,367	2,409,446
Occupancy	195,010	169,752
Security	441,226	447,755
Organization	139,021	116,802
General	<u>1,494,860</u>	<u>1,472,224</u>
	<u>4,955,484</u>	<u>4,615,979</u>
Income Before Patronage Allocation and Income Taxes	978,931	2,614,527
Patronage Allocation (Note 9)	<u>-</u>	<u>475,227</u>
Income Before Income Taxes	<u>978,931</u>	<u>2,139,300</u>
Income Taxes (Recovery) (Note 11)		
Current	106,402	490,596
Future (recovery)	<u>80,336</u>	<u>(214,598)</u>
	<u>186,738</u>	<u>275,998</u>
Net Income	<u>\$ 792,193</u>	<u>\$ 1,863,302</u>

The accompanying notes are an integral part of these financial statements

**ROCKY CREDIT UNION LTD.**  
**STATEMENT OF RETAINED EARNINGS**  
**FOR THE YEAR ENDED OCTOBER 31, 2009**

	<u>2009</u>	<u>2008</u>
Balance, Beginning of Year	\$ 13,281,951	\$ 11,962,489
Add:		
Net income	792,193	1,863,302
Tax recovery on common share dividends	<u>76,318</u>	<u>153,400</u>
	14,150,462	13,979,191
Less:		
Dividends on common shares (Note 9)	<u>(515,780)</u>	<u>(697,240)</u>
Balance, End of Year	<u>\$ 13,634,682</u>	<u>\$ 13,281,951</u>

**ROCKY CREDIT UNION LTD.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED OCTOBER 31, 2009**

	<u>2009</u>	<u>2008</u>
<b>Operating Activities</b>		
Net income	\$ 792,193	\$ 1,863,302
Amortization	247,519	203,248
(Gain) Loss on disposal of property and equipment	(250)	2,192
Net (increase) decrease in other assets	(241,791)	85,305
Net increase (decrease) in accounts payable and accrued liabilities	(424,974)	484,056
Changes in accrued interest receivable and payable, net	-	210,575
Net (increase) decrease in income tax receivable	241,296	-
	<u>613,993</u>	<u>2,848,678</u>
<b>Financing Activities</b>		
Decrease in members' common shares, net of redemptions	(250,663)	2,022,203
Increase (decrease) in patronage allocation distributable	515,780	-
Dividends on common shares, net of tax	(439,462)	-
Net decrease in members' deposit accounts and accrued interest	<u>(30,924,198)</u>	<u>32,371,552</u>
	<u>(31,098,543)</u>	<u>34,393,755</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(212,717)	(667,752)
Proceeds on disposal of property and equipment	250	-
Net decrease (increase) in loans to members and accrued interest	7,480,600	(1,124,169)
Net decrease (increase) in investments and accrued interest	<u>18,471,218</u>	<u>(31,929,214)</u>
	<u>25,739,351</u>	<u>(33,721,135)</u>
<b>Change in Cash During the Year</b>	(4,745,199)	3,521,298
<b>Cash, Beginning of Year</b>	<u>4,644,773</u>	<u>1,123,475</u>
<b>Cash, End of Year</b>	<u>\$ (100,426)</u>	<u>\$ 4,644,773</u>
<b>Cash and Cash Equivalents Represented by:</b>		
Cash	\$ 645,556	\$ 539,744
Current account deposits	-	4,105,029
Operating loan	<u>(745,982)</u>	<u>-</u>
	<u>\$ (100,426)</u>	<u>\$ 4,644,773</u>
<b>Interest Received During the Year</b>	<u>\$ 10,923,499</u>	<u>\$ 15,125,341</u>
<b>Interest Paid During the Year</b>	<u>\$ 6,497,002</u>	<u>\$ 7,918,215</u>
<b>Income Taxes Paid During the Year</b>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009**

**1. NATURE OF OPERATIONS**

The Credit Union is incorporated under the *Credit Union Act* of the Province of Alberta (the "Province") and operates one branch in the community of Rocky Mountain House and surrounding area.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province will ensure that the Corporation carries out this obligation.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The precise determination of many assets and liabilities is dependent on future events. As a result, the preparation of financial statements for a period involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates and approximations. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Investments

Term deposits and the mortgage pool investment are classified as held-to-maturity and are recorded at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Shares in Credit Union Central are classified as available-for-sale. As there is no market for these shares, their fair value is estimated at amortized cost.

Interest income is recorded as earned and gains and losses on the sale of investments are recorded in income on disposition.

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**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(b) Loans to Members

The Credit Union records loans to members at the lower of principal plus accrued interest and net realizable value.

The Credit Union recognizes interest income from loans on the accrual basis for all loans not classified as impaired.

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 60 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 application ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan. Loans or portions of loans considered uncollectible are written-off.

(c) Allowance for Loan Impairment

The Credit Union maintains an allowance for loan impairment in an amount considered adequate to absorb credit-related losses in its loan portfolio. The allowance is increased by a provision for loan impairment which is charged to income and reduced by write-offs, net of recoveries. The allowance for loan impairment consists of:

A specific allowance 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; and

A general allowance 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 provision is assigned to that loan and the collective provision is adjusted accordingly.

(d) Property and Equipment

Property and equipment are recorded at cost. Amortization is recorded in the accounts at the following annual rates and methods:

Building	2%	Straight-line
Office Equipment	20%	Straight-line
Furniture and Equipment	10%	Straight-line
Security Equipment	3%	Straight-line
Computer Equipment	30%	Straight-line
Leasehold Improvements	Length of lease term	
Banking System Software	10%	Straight-line

(CONT'D)

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(e) Income Taxes

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the expected future income tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective income tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(f) Derivative Financial Instruments

The Credit Union enters into equity-linked option contracts to fix costs on deposit products which are linked to movements in equity market indexes. Premiums paid to enter into these contracts are recorded in other assets and are amortized over the contract life.

Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative instruments. The credit risk arising from transactions is the risk due to counter parties failing to meet their financial obligations, such as making payments to the Credit Union to offset amounts paid to depositors based on the performances of the equity market indexes or the increases in prevailing interest rates. The Credit Union manages this risk by only entering into such arrangements with Credit Union Central Alberta Ltd. ("Central").

**3. INVESTMENTS AND ACCRUED INTEREST**

Investments are recorded at the lower of cost and net realizable value and consist of:

	<u>2009</u>	<u>2008</u>
Credit Union Central		
Term deposits	\$ 40,520,000	\$ 68,510,000
Shares	<u>4,500,000</u>	<u>4,500,000</u>
	45,020,000	73,010,000
Other term deposits	<u>9,711,059</u>	<u>-</u>
	54,731,059	73,010,000
Accrued interest receivable	<u>188,073</u>	<u>380,350</u>
	<u>\$ 54,919,132</u>	<u>\$ 73,390,350</u>

All term deposits mature within one year and are classified as held-to-maturity. The shares in Central are classified as available-for-sale. As there is no market for these shares, their fair value is estimated at amortized cost. As required by the *Credit Union Act*, the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**4. LOANS TO MEMBERS AND ACCRUED INTEREST**

	<u>Recorded Loan</u>	<u>Specific Allowance</u>	<u>General Allowance</u>	<u>Net Carrying Value</u>	
				<u>2009</u>	<u>2008</u>
Consumer loans	\$ 43,196,551	\$ -	\$ 106,503	\$ 43,090,048	\$ 48,066,628
Residential mortgages	91,614,147	-	88,905	91,525,242	84,468,228
Commercial loans	43,248,303	1,327,000	144,280	41,777,023	45,848,749
Commercial mortgages	16,585,475	158,546	372,023	16,054,906	18,704,237
Agricultural loans	7,448,692	-	46,647	7,402,045	8,905,514
Agricultural mortgages	<u>5,362,216</u>	<u>-</u>	<u>72,256</u>	<u>5,289,960</u>	<u>6,588,268</u>
	207,455,384	1,485,546	830,614	205,139,224	212,581,624
Accrued interest	<u>550,253</u>	<u>-</u>	<u>-</u>	<u>550,253</u>	<u>588,454</u>
	<u>\$208,005,637</u>	<u>\$ 1,485,546</u>	<u>\$ 830,614</u>	<u>\$205,689,477</u>	<u>\$213,170,078</u>

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 4,104,213	\$ 3,058,790
Provision for loan impairment	72,709	1,676,308
Loans written off during the year, net of recoveries	<u>(1,860,762)</u>	<u>(630,885)</u>
Balance, end of year	<u>\$ 2,316,160</u>	<u>\$ 4,104,213</u>

There were \$3,993,568 (2008 - \$3,913,634) in impaired loans at the year end.

The general allowance was \$830,614 (2008 - \$978,057).

**5. OTHER ASSETS**

	<u>2009</u>	<u>2008</u>
Equity-linked derivative contracts	\$ 254,577	\$ -
Prepaid expenses	165,841	98,293
Future income taxes	<u>134,262</u>	<u>214,598</u>
	<u>\$ 554,680</u>	<u>\$ 312,891</u>

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**6. PROPERTY AND EQUIPMENT**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2009</u>	<u>2008</u>
Land	\$ 323,384	\$ -	\$ 323,384	\$ 323,384
Building	694,031	281,729	412,302	426,182
Office equipment	425,054	374,269	50,785	87,620
Furniture and equipment	231,553	166,814	64,739	65,570
Security equipment	131,495	66,869	64,626	68,522
Computer equipment	589,589	517,292	72,297	147,740
Leasehold improvements	33,745	32,625	1,120	8,961
Banking system software	624,425	61,618	562,807	458,881
	<u>\$ 3,053,276</u>	<u>\$ 1,501,216</u>	<u>\$ 1,552,060</u>	<u>\$ 1,586,860</u>

**7. OPERATING DEMAND LOAN AND REVOLVING TERM LOAN**

The Credit Union has an approved operating demand loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the operating demand loan is \$10,000,000. The demand loan bears interest at Central's prime rate, plus or minus Central's applicable discount or margin rates in effect from time to time. At October 31, 2009, the Credit Union had \$745,982 outstanding on its operating demand loan (2008 - \$NIL).

The Credit Union has an approved term loan with Central which is secured by a general assignment of book debts and assignment of investments and deposits held at Central. The authorized limit on the term loan is \$20,000,000. The term loan bears interest at (i) Central's prime rate plus or minus Central's applicable discount or margin rates in effect from time to time, or (ii) at the option of the Credit Union for terms of more than 30 days at a fixed rate equal to Central's money market deposit rate of the equivalent paid fixed swap rate for the term plus or minus the applicable discount or margin rate. Any borrowings over 5% of the Credit Union's total assets will be be priced at a 2% premium. At October 31, 2009, the Credit Union had \$NIL outstanding on its term loan (2008 - \$NIL).

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**8. MEMBERS' DEPOSIT ACCOUNTS AND ACCRUED INTEREST**

	<u>2009</u>	<u>2008</u>
Demand deposits	\$ 106,907,485	\$ 105,761,386
Term deposits	103,492,189	137,768,977
Registered Retirement Savings Plans ("RRSP")	17,338,021	16,634,253
Registered Retirement Income Funds ("RRIF")	5,665,052	4,407,381
Tax Free Savings Accounts ("TFSA")	<u>705,967</u>	<u>-</u>
	234,108,714	264,571,997
Accrued interest payable	<u>1,359,186</u>	<u>1,820,101</u>
	<u>\$ 235,467,900</u>	<u>\$ 266,392,098</u>

Concentra Financial Services Association ("Concentra") is the trustee of the RRSP's, the RRIF's and the TFSA's offered to members. Under an agreement with Concentra, members' contributions to the plans, as well as income earned, are deposited in the Credit Union.

**9. ALLOCATION DISTRIBUTABLE**

As at October 31, 2009, the Board of Directors declared an allocation to its members.

This allocation will be paid during December 2009 to each member's common share account on record as at October 31, 2009.

Details of the allocation are as follows:

	<u>2009</u>	<u>2008</u>
4% Dividends on common shares (2008 - 6.33%)	\$ 515,780	\$ 697,240
0% Patronage allocation (2008 - 3%)	<u>-</u>	<u>475,227</u>
	515,780	1,172,467
Allocation paid (adjustment) during the year	<u>(23,746)</u>	<u>(1,172,467)</u>
	<u>\$ 492,034</u>	<u>\$ -</u>

ROCKY CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

OCTOBER 31, 2009

**10. COMMON SHARES**

The *Credit Union Act* identifies 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; and
- 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.

A membership in the Credit Union requires the purchase of a minimum of 25 shares (5 shares for minors).

The Credit Union Deposit Guarantee Corporation does not guarantee common shares which represent "at risk" capital.

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 13,135,756	\$ 9,321,989
Member contributions, net of redemptions	(250,663)	1,565,302
Allocation paid to members	<u>-</u>	<u>2,248,465</u>
Balance, end of year	<u>\$ 12,885,093</u>	<u>\$ 13,135,756</u>

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**11. INCOME TAXES**

	<u>2009</u>	<u>2008</u>
Current	\$ 106,402	\$ 490,596
Future (recovery)	<u>80,336</u>	<u>(214,598)</u>
	<u>\$ 186,738</u>	<u>\$ 275,998</u>

Income tax expense differs from the amount that would have been expected if the reported income before income taxes was subject to the combined federal and provincial statutory income tax rate for the year. The difference between the expected income tax expense and the actual is as follows:

Expected tax rate	<u>14.00%</u>	<u>22.00%</u>
Income taxes at statutory rate	\$ 137,050	\$ 470,646
Add (deduct)		
Temporary differences (primarily due to differences between tax treatment and accounting treatment of loan allowance and property and equipment)	<u>(30,648)</u>	<u>(409,246)</u>
Future tax (recoverable)	<u>80,336</u>	<u>214,598</u>
	<u>\$ 186,738</u>	<u>\$ 275,998</u>
Actual tax rate	<u>19.08%</u>	<u>12.90%</u>

**12. RELATED PARTY TRANSACTIONS**

Directors and management of the Credit Union have loans from the Credit Union totalling \$2,063,350 which is 1.01% of total loans. The Credit Union, in accordance with its policy, grants loans to its management at rates from 2.00% to 2.25%. Directors pay regular member rates on loans. All loans are in good standing.

Directors and management of the Credit Union have deposits at the Credit Union totalling \$1,852,637 which is 0.79% of total deposits. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in member deposits. Management and staff have access to personal chequing accounts which do not incur service charges.

Amounts paid annually to directors range from \$1,200 (2008 - \$1,250) to \$4,575 (2008 - \$3,300) with an average of \$2,581 (2008 - \$2,275).

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**13. COMMITMENTS**

(a) Option Agreements

The Credit Union has \$1,802,214 (2008 - \$1,843,411) of Index-Linked RRSP deposits outstanding to its members at October 31, 2009. These deposits mature between 2010 and 2014 and pay bonus interest to the depositors, at the end of the term, based upon the performance of the related index. The Credit Union has entered into option agreements with Credit Union Central ("Central") to offset the exposure on these deposits related to the performance of the underlying index. Consequently, at the end of the term, the Credit Union will receive payments from Central which will offset the amounts that will be paid to the depositors based on the performance of the underlying index.

The option agreements with Central are recorded in member deposits at cost less accumulated amortization of \$109,002 (2008 - \$133,699). Amortization is calculated on a straight-line basis over the term of the deposits and amounted to \$53,836 (2008 - \$49,676).

(b) Leases

The Credit Union is committed to rent under lease agreements for office space. The lease agreement expires on May 31, 2010. Basic lease payments are as follows:

2010	\$	30,282
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(c) Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts for these commitments as set out below represent the maximum 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 the future cash requirements. Such commitments, which are not included in the Balance Sheet, include:

- i) Guarantees and standby letters of credit are issued at the request of the member in order to secure the member's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Credit Union to make payments to third parties in the event that a member is unable to meet their contractual financial or performance obligations, without investigation as to the validity of the beneficiary's claim against the member. In the event of a call on such commitments, the Credit Union has recourse against the members. Generally, the term of these guarantees does not exceed three years.
- ii) Commercial letters of credit which require the Credit Union to honour drafts presented by third parties upon completion of specific activities. Commitments to extend credit which 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.

	<u>2009</u>	<u>2008</u>
Letters of guarantee	\$ 1,626,705	\$ 2,394,454
Commitments to extend credit		
Original terms to maturity of 1 year or less	14,284,314	10,308,351
Original terms to maturity of 1 year or more	<u>15,621,212</u>	<u>20,371,264</u>
	<u>\$ 31,532,231</u>	<u>\$ 33,074,069</u>

ROCKY CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

OCTOBER 31, 2009

**14. RISK MANAGEMENT**

The use of financial instruments exposes the Credit Union to credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages exposure to them.

**Credit Risk**

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from financial instruments, such as loan balances, credit commitments and letters of guarantee.

The Credit Union's credit risk management practices include ongoing assessment, analysis and monitoring of financial information related to individual borrowers included in the Credit Union's loan portfolio.

Refer to Note 4 and Note 13 (c) for information on credit exposure and credit quality.

**Market Risk**

Market risk is the risk that the Credit Union may incur a loss due to adverse changes in interest rates, foreign exchange rates or equity and commodity market prices arising from financial instruments, such as investments, loans and deposit balances.

The Credit Union's market risk management practices include day-to-day analysis and monitoring of market interest rates and foreign exchange rates.

Refer to Note 16 for more information on interest rate risk.

**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.

Under the *Credit Union Act* of Alberta the Credit Union must maintain a minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 9.68% at October 31, 2009 (2008 – 8.10%).

The Credit Union's liquidity risk management practices include daily monitoring of expected cash inflows and outflows and analysis of loan and deposit maturities.

ROCKY CREDIT UNION LTD.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

OCTOBER 31, 2009

**15. CAPITAL MANAGEMENT**

The Credit Union manages capital to ensure that it meets the minimum levels set out in the *Credit Union Act* of Alberta (the "Act") and to support the continued growth of the Credit Union and build member value.

The Credit Union's capital includes:

	<u>2009</u>	<u>2008</u>
Retained earnings	\$ 13,634,682	\$ 13,281,951
Common shares	12,885,093	13,135,756
Qualifying Central retained earnings (a)	<u>712,459</u>	<u>971,295</u>
	<u>\$ 27,232,234</u>	<u>\$ 27,389,002</u>

(a) The Credit Union's portion of qualifying retained earnings of Credit Union Central of Alberta ("Central") as calculated and provided by Central.

The Credit Union is required under the Act to have a capital balance that is equal to or exceeds the greater of:

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

Credit Union management measures the adequacy of the Credit Union's capital to these requirements on an ongoing basis and reports the results to the Board of Directors and Credit Union Guarantee Corporation.

As at October 31, 2009 the Credit Union's total capital as a percent of assets was 10.1% (2008 – 9.0%) and the total capital as a percent of risk weighted assets was 16.8% (2008 – 15.8%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2009.

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**16. 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 maturities of its financial assets. The interest rate risk is being managed within prudent guidelines.

The following table summarizes amounts by maturity dates:

	<u>As At October 31, 2009</u>				
	<u>Floating Rate</u>	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>Non-Rate Sensitive</u>	<u>Total</u>
<b>Assets</b>					
Cash	\$ -	\$ -	\$ -	\$ 646,000	\$ 646,000
<i>Effective Yield</i>	0.00%	0.00%	0.00%	0.00%	0.00%
Investments	4,500,000	50,231,000	-	-	54,731,000
<i>Effective Yield</i>	2.25%	1.28%	0.00%	0.00%	1.36%
Member loans	114,969,000	20,140,000	72,346,000	(2,316,000)	205,139,000
<i>Effective Yield</i>	3.66%	5.27%	5.46%	0.00%	4.50%
Other	-	-	-	3,164,000	3,164,000
	<u>119,469,000</u>	<u>70,371,000</u>	<u>72,346,000</u>	<u>1,494,000</u>	<u>263,680,000</u>
<b>Liabilities</b>					
Operating demand loan	746,000	-	-	-	746,000
<i>Effective Yield</i>	0.25%	0.00%	0.00%	0.00%	0.25%
Deposits	83,758,000	55,982,000	68,637,000	25,732,000	234,109,000
<i>Effective Yield</i>	0.26%	2.53%	3.49%	0.00%	1.72%
Equity	-	-	-	27,012,000	27,012,000
Other	-	-	-	1,813,000	1,813,000
	<u>84,504,000</u>	<u>55,982,000</u>	<u>68,637,000</u>	<u>54,557,000</u>	<u>263,680,000</u>
Net gap	<u>\$ 34,965,000</u>	<u>\$ 14,389,000</u>	<u>\$ 3,709,000</u>	<u>\$(53,063,000)</u>	<u>\$ -</u>

As At October 31, 2008

Net gap	<u>\$ 32,220,000</u>	<u>\$ 2,184,000</u>	<u>\$(14,167,000)</u>	<u>\$(20,237,000)</u>	<u>\$ -</u>
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**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 and equipment. 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 judgment, the aggregate fair value amounts should not be interpreted as being necessarily 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.

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

- i) The fair values of cash, other assets and other liabilities are assumed to approximate book values, due to their short-term nature.
- ii) The estimated fair values of 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 values of fixed-rate investments, member loans and fixed-rate member deposits are determined by discounting the expected future cash flows of these investments, loans and deposits at current market rates for products with similar terms and credit risks.

Estimated fair values of financial instruments are summarized as follows:

	<u>Fair</u> <u>Value (FV)</u>	<u>2009</u> <u>Book</u> <u>Value (BV)</u>	<u>FV over</u> <u>BV</u>	<u>Fair</u> <u>Value (FV)</u>	<u>2008</u> <u>Book</u> <u>Value (BV)</u>	<u>FV over</u> <u>BV</u>
<b>Assets</b>						
Cash	\$ 646,000	\$ 646,000	\$ -	\$ 4,645,000	\$ 4,645,000	\$ -
Investments	54,822,000	54,731,000	91,000	73,463,000	73,390,000	73,000
Members' loans	207,366,000	205,139,000	2,227,000	213,159,000	213,170,000	(11,000)
Other	3,164,000	3,164,000	-	521,000	521,000	-
Less:						
<b>Liabilities</b>						
Members' deposits	236,816,000	234,109,000	2,707,000	268,106,000	266,324,000	1,782,000
Other liabilities	<u>2,559,000</u>	<u>2,559,000</u>	<u>-</u>	<u>(924,000)</u>	<u>(924,000)</u>	<u>-</u>
Equity	<u>\$ 26,623,000</u>	<u>\$ 27,012,000</u>	<u>\$ (389,000)</u>	<u>\$ 24,606,000</u>	<u>\$ 26,326,000</u>	<u>\$ (1,720,000)</u>

**18. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current year's presentation. The comparative figures were audited by a firm of Chartered Accountants other than Hawkings Epp Dumont LLP.

**ROCKY CREDIT UNION LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**OCTOBER 31, 2009**

**19. FUTURE ACCOUNTING CHANGES**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the basis for financial reporting by Canadian publicly accountable enterprises will move from Canadian Generally Accepted Accounting Standards ("GAAP") to International Financial Reporting Standards ("IFRS"). The Credit Union will adopt IFRS for the year ending October 31, 2012.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada. The Credit Union has started its analysis of the areas that it anticipates will be impacted by IFRS. At this time, the impact of the transition to IFRS on the Credit Union's financial statements has not yet been determined.