



КАРПАТІЯ
CARPATHIA
CREDIT UNION



2010

**ANNUAL
REPORT**

РІЧНИЙ ЗВІТ

MISSION STATEMENT

The mission of Carpathia Credit Union, as a Ukrainian Canadian financial institution, is:

“To achieve excellence in providing quality financial and related services in anticipation of/or in response to the changing needs of our members in a manner that is beneficial to the membership as a whole.”

СТВЕРДЖЕННЯ МІСІЇ

Метою Ощадно-Кредитової Спілки “Карпатія”, як українсько-канадської фінансової установи, є:

“Досягнення найвищого рівня надання високо-якісних фінансових і подібних послуг, передбачаючи та реагуючи на змінливі потреби наших членів шляхом забезпечення цілісності і на користь наших членів.”

VISION STATEMENT

The financial institution of choice for Manitoba’s Ukrainian community.

ВІЗІЯ НА МАЙБУТНЄ

Бути фінансовим закладом який вибирає українська громада Манітоби.



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PRESIDENT'S REPORT

It is my privilege to present the annual report and financial statements to the Membership of Carpathia Credit Union on behalf of the Board of Directors, Management and Staff of our credit union. We are delighted with the recent successes, as we have achieved a milestone of three hundred million dollars.

This is largely the result of the loyalty of our members. Our profit for the past year was \$1.7 million. This is largely the result of the efficiencies and energy of our management and staff. Our continued growth and success are a source of pride for the Board, staff, and membership of Carpathia Credit Union. I commend each of you.

Your Board of Directors has embarked upon our exciting new initiative - the creation of our fourth branch in the southern sector of Winnipeg.

This expansion will facilitate the ease with which many of our members will be able to access financial services - both personal and commercial. We see this as a wise investment in our future and as an opportunity for increased growth.

The past several years have caused great concerns for financial institutions across the globe. Many banks have failed and defaulted. Our credit union system has continued to grow. Carpathia Credit Union has continued to experience growth. We are all indeed grateful that Carpathia Credit Union has continued to thrive in difficult times. We continued to have confidence both in our credit union system and in Carpathia Credit Union.

Carpathia Credit Union will strive to remain one of the leading Ukrainian financial institutions in Canada. Our involvement in the Ukrainian community has always been a source of tremendous pride. The Board of Directors will remain receptive to the needs of the Ukrainian Community.

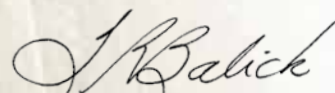
We embark upon 2011. It is a New Year - a time of optimism, renewal, and excitement. With great anticipation Carpathia Credit Union enters its 72nd year. Over five generations of Ukrainian Canadian have contributed to the success of Carpathia Credit Union. With your continued support and loyalty, Carpathia Credit Union will continue to prosper and flourish.

The Board of Directors commends the Chief Executive Officer, Mr. Walter Dlugosh. Under Mr. Dlugosh's stewardship, the management and staff of Carpathia Credit Union has served our members effectively and efficiently. The Board Thanks Mr. Walter Dlugosh, his management team, and his staff for their dedication to Carpathia Credit Union.

It has been my pleasure to serve as your President this past year. The experience has been exciting and gratifying. I thank my wife Patrusia and my children Andrea and Ivas for their continued support. I thank each of you for your confidence in me.

Best Wishes for a New Year filled with good health and peace of mind.

Respectfully,



Taras R. Babick, M.D.
President



ЗВІТ ПРЕЗИДЕНТА

Для мене велика честь представити річний звіт та фінансову звітність членів кредитової спілки Карпатії від імені Ради директорів, керівництва і персоналу нашої кредитової спілки. Ми раді, що недавні успіхи, які ми досягли є важливою віхою в триста мільйонів доларів. Багато в чому це результат лояльності наших членів. Наш дохід за минулий рік склав \$1,7 мільйонів. Багато в чому це результат ефективності та енергії нашого керівництва і персоналу. Наш подальший ріст і успіх є джерелом гордості для Ради, співробітників та членів кредитової спілки Карпатії. Я рекомендую це кожному з вас.

Наша рада директорів приступила до нашої захоплюючої нової ініціативи - створення четвертого відділення у південному секторі Вінніпегу. Це розширення сприятиме легкості, з якою багато наших членів будуть мати можливість доступу до фінансових послуг - як особистих, так і комерційних. Ми розглядаємо це як розумні інвестиції в наше майбутнє, і як можливість для розширення зростання.

Останні кілька років викликали велику стурбованість для фінансових установ по всьому світу. Багато банків збанкрутувало. Система нашої кредитової спілки продовжує зростати. Кредитова спілка Карпатія продовжує випробовувати зростання. Ми всі дійсно вдячні, що кредитова спілка Карпатія продовжує процвітати у важкі часи.

Ми як і раніше впевнені у нашій системі кредитових спілок та в Карпатії.

Кредитова спілка Карпатія буде прагнути залишатися одною з провідних українських фінансових установ у Канаді. Наша участь в українській громаді завжди була джерелом величезної гордості. Рада директорів буде залишатися сприйнятливою до потреб українського суспільства.

Ми приступили до 2011 року. Це Новий рік - час оптимізму, оновлення, і хвилювання. З нетерпінням кредитова спілка Карпатія вступає в 72-гу річницю. За п'ять поколінь українці і канадці зробили свій внесок в успіх Карпатії. З вашої постійної підтримки і лояльності, кредитова спілка Карпатія буде продовжувати зростати і розвиватися.

Рада директорів похвально оцінює роботу головного управителя, п. Володимира Длугоша. Під керівництвом пана Длугоша, керівництво і співробітники кредитової спілки Карпатії служили нашим членам ефективно і результативно. Рада дякує пану Володимиру Длугошу, його управлінській команді, і його співробітникам за їх відданість Карпатії.

Це було моє задоволення служити в якості президента в минулому році. Досвід був цікавим і приємним. Я дякую моїй дружині Петрусі і моїм дітям Андрії і Івасеві за їх постійну підтримку. Я дякую кожному з вас за вашу довіру до мене.

Найкращі побажання в Новому році. міцного здоров'я та душевного спокою.

З повагою,

Тарас Р. Бабух, М.Д.
Президент

CHIEF EXECUTIVE OFFICER'S REPORT

It is my honour and privilege to have the opportunity to report to the members of Carpathia Credit Union for the year ending September 30, 2010.

In the course of the last twelve months, the credit union's assets increased by \$34 million, ending the year at \$295.7 million. This year's asset growth of 13% follows two consecutive years in which the credit union achieved an annual growth rate of nearly 11%. The main reason for this impressive growth can be attributed to meeting the deposit needs of our members. Members have relied on their credit union to provide them with safe, secure, and competitive investment products.

Loan growth during the 2010 year reached \$17.7 million or 7.6%. This was noticeably lower than the growth achieved last year and is related to consumer confidence in the economy. For the year the credit union's total commercial loans grew by 13.5% while the credit union's total consumer loans only grew by 3.8%. The commercial loan results were slightly better than expected due to higher demand in commercial mortgages resulting from increasing real estate values along with the continuation of low interest rates. The consumer loan results were significantly less than expected due to a weaker mortgage market. The housing market was noticeably slower in 2010 with a reduction in the number of homes for sale. Throughout the last eighteen months members have been less active in the real estate market and more concerned with improving their debt loads while maintaining their employment status.

Deposit growth for 2010 remained strong resulting in an increase of 13.2% or \$32.6 million.

This level of deposit growth surpassed last year's record setting rate of 11.4%.

The Tax Free Savings Account product which was introduced two years ago has resulted in members taking advantage of its features. Term deposit growth also remained strong during the year even with the low interest rates that investors were faced with.

Carpathia welcomed 375 new members and 108 associates during 2010. In terms of the associate status, which was introduced in 2003, Carpathia Credit Union had 507 associates as at September 30, 2010.

Associate loans outstanding as at September 30, 2010 comprised 13.0% of total loans outstanding

(9.8% in 2009), while associate deposits were 6.8% of total deposits payable (3.0% in 2009).

Income earned from associates of the credit union was equal to 10.5% of the total income earned by the credit union in 2010. This was an increase over the 9.5% of the total income earned in 2009.

The credit union's operating income for 2010 increased by 25% over the previous year as a result of lower interest rates paid on deposits. In contrast total operating expenses increased by 7.7% for the year primarily due to increased Personnel costs. In 2009 to maintain its competitiveness the credit union reduced its Personnel expenses by 11.2%. This year previously vacant positions were filled to maintain a higher level of member service. In fact total Personnel costs in 2010 were only 1.5% greater than those just two years ago. Based on the 2010 financial results the Board of Directors declared a \$373,500 patronage award comprising of a cash dividend of \$33,500 along with \$340,000 in new surplus shares. Carpathia Credit Union's Member Equity Plan has distributed to the membership over \$8.5 million in patronage awards since its inception. With this year's rate of surplus share redemption at 50.5%, the total cash payments to qualifying members will equal \$475,000. It should be noted that over the last three years the rate of surplus share redemption to the membership has not been anything less than 50%.

Beyond the financial results it has been an exciting year for Carpathia. Soon after the last Annual General Meeting the process of locating a site for our fourth branch was initiated. A location in the south-central area of the city was pursued that would meet the needs of our existing membership and potential new members. It has been nearly seventeen years since Carpathia has added a new branch while since that time the assets of the credit union have tripled in size. The timing for this project could not have come at a better time. We anticipate that a site will be acquired before the end of the calendar year and the development of the new branch will commence in early 2011.

Also during the year the Board along with Senior Management undertook a review of the credit union's strategic plan. The focus for the credit union over the next three years will be on increasing its membership base and strengthening its relationship with its current members. As can be expected the fourth branch will play a vital role in the credit union's future.

In closing I would like to personally thank our members for their support and loyalty to our credit union over the last year, our Board of Directors for their support and guidance throughout the year, and our staff for their commitment and dedication in serving our members.



Walter J. Dlugosh, CMA
Chief Executive Officer



СЛОВО ГОЛОВНОГО ЕКЗЕКУТИВНОГО УПРАВИТЕЛЯ

Для мене велика честь і привілеція мати можливість представити членам кредитної спілки Карпатії фінансовий звіт за рік, що закінчився 30 вересня 2010 року.

Протягом останніх дванадцяти місяців, активи кредитної спілки збільшилися на 34 млн. дол. до кінця року на \$ 295 700 000. Зростання активів у цьому році на 13% в порівнянні за два останні роки, в якому кредитна спілка досягнула річного темпу зростання близько 11%. Основною причиною цього вражаючого зростання є відповідність депозитних потреб наших членів. Члени поклалися на свої кредити, що забезпечили їм надійну та конкурентоспроможну інвестиційну продукцію.

Зростання кредитів протягом 2010 року до 17,7 млн. дол або 7,6%. Це було помітно нижче, ніж зростання, досягнуте в минулому році і це пов'язане з споживчою довірою в економіці. За рік загальні комерційні позички кредитної спілки виросли на 13,5%, а загальна сума споживчих кредитів спілки тільки зросла на 3,8%. Результати комерційних кредитів були трохи кращі, ніж очікувалося, із-за більш високого попиту комерційної іпотеки в результаті збільшення нерухомості поряд із продовженням низьких процентних ставок. Результати споживчих кредитів були значно менші, ніж очікувалося, із-за слабкого ринку іпотечного кредитування. Ринок житла був помітно повільніший в 2010 році у зв'язку з скороченням числа будинків для продажу. Протягом останніх півтора року члени спілки були менш активні на ринку нерухомості і більш зацікавлені у зменшенні своїх боргів при збереженні статусу зайнятості.

Зростання депозитів в 2010 році залишалися високими в результаті збільшення на 13,2% або 32,6 млн. дол. Цей рівень приросту вкладів перевершив торішній рекорд в 11,4%. Tax Free Savings Account продукт, який був введений два роки тому дозволив членам скористатися його можливостями. Термінові депозити також залишилися високими протягом року навіть при низьких процентних ставках.

Карпатія вітала 375 нових членів і 108 асоційованих протягом 2010 року. У термінах асоційованого статусу, який був введений у 2003 році, кредитної спілки Карпатія було 507 Associates за станом на 30 вересня 2010 року. Асоційовані кредити станом на 30 вересня 2010 склали 13,0% від загального числа виданих кредитів (9,8% у 2009 році), в той час як асоційовані 6,8% від загальної суми вкладів заборгованості (3,0% у 2009 році). Дохід, отриманий від співробітництва з асоційованими членами, кредитної спілки дорівнював 10,5% від загального доходу, отриманого кредитовою спілкою в 2010 році. Це було більше, на 9,5% від загального доходу, отриманого в 2009 році.

Операційний дохід кредитної спілки за 2010 рік збільшився на 25% в порівнянні з попереднім роком в результаті зниження процентних ставок на вклади. На відміну загальні операційні витрати зросли на 7,7% за рік, в основному за рахунок збільшення витрат персоналу. У 2009 році для підтримки своєї конкурентоспроможності кредитна спілка скоротила витрати на персонал на 11,2%. У цьому році раніше вакантні посади були заповнені, щоб підтримувати високий рівень послуг. Насправді загальний обсяг витрат персоналу в 2010 році тільки 1,5% більше ніж два роки тому. На підставі результатів фінансової звітності 2010 рада директорів заявила \$ 373500 патронажного звороту, що складається з грошових дивідендів в розмірі \$ 33500 разом з \$ 340000 нових уділів. Майновий план членів кредитної спілки Карпатія поширив понад 8,5 млн патронажного звороту з моменту його створення. З рейтингом у цьому році профіцит викупу часток у 50,5%, загальною сумою платежів готівкою кваліфікованим членам буде дорівнює \$ 475000. Слід зазначити, що за останні три роки норма додаткової частки виплати для членства не була менше ніж 50%.

Крім фінансових результатів цей рік для Карпатії був чудовим роком. Незабаром після останніх річних загальних зборів процес розміщення сайту на наше четверте відділення було розпочато. Розташований у південно-центральної частині міста переконливо відповідає потребам наших існуючих і потенційних нових членів. Це є майже сімнадцять років з тих пір як Карпатія додала нову філію в той час активи кредитної спілки збільшилися втричі. Час для цього проєкту не може бути кращим. Ми очікуємо, що сайт буде придбаний до кінця календарного року, і розвиток нової галузі розпочнеться на початку 2011 року. Також протягом року Рада разом з старшими керівниками провела огляд стратегічного плану кредитної спілки. Центр уваги для кредитної спілки протягом наступних трьох років буде приділятися підвищенню своєї членської бази та зміцнення відносин з його нинішніми членами. Як і слід було очікувати четверте відділення буде грати життєво важливу роль у майбутньому кредитної спілки.

На закінчення я хотів би особисто подякувати нашим членам, за їх підтримку і лояльність до нашої кредитної спілки протягом останнього року, нашій Раді директорів за їх підтримку і керівництво протягом року, і нашому персоналу за їх прихильність та відданість у служінні нашим членам.

Володимир Дулюш

Володимир Дулюш

Головний Екзекутивний Управитель

Auditors' Report

**To the Members of
CARPATHIA CREDIT UNION LTD.**

We have audited the balance sheet of CARPATHIA CREDIT UNION LTD. as at September 30, 2010 and the statements of income, retained surplus and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba
October 19, 2010

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO Canada s.r.l., une société canadienne à responsabilité limitée, est membre de BDO International Limited, société de droit anglais, et fait partie du réseau international de sociétés membres indépendantes BDO.

CARPATHIA CREDIT UNION LTD.
Balance Sheet

September 30 **2010** **2009**

Assets

Funds on deposit	\$ 13,557,976	\$ 7,614,854
Investments (Note 3)	30,429,618	19,846,132
Loans receivable (Note 4)	250,271,170	232,557,156
Property, plant and equipment (Note 5)	1,019,328	1,111,165
Other assets (Note 6)	395,820	395,482
	\$295,673,912	\$261,524,789

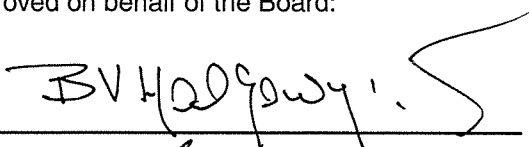
Liabilities and Members' Capital

Deposits payable (Note 7)	\$279,224,370	\$246,602,406
Accounts payable and other liabilities (Note 9)	604,495	459,446
	279,828,865	247,061,852

Commitments and contingencies (Notes 14 and 15)**Members' Capital**

Members' shares (Note 10)	936,286	1,227,040
Provision for issue of surplus shares (Note 11)	340,548	339,508
Retained surplus (Note 12)	14,568,213	12,896,389
	15,845,047	14,462,937
	\$295,673,912	\$261,524,789

Approved on behalf of the Board:



Director



Director

CARPATHIA CREDIT UNION LTD. Statement of Income

For the year ended September 30	2010	2009
Income		
Interest from loans	\$ 11,441,015	\$ 11,140,882
Investment income		
Liquidity deposits	470,523	524,382
CUCM Shares	180,138	106,202
	12,091,676	11,771,466
Cost of funds	5,885,301	6,397,830
Gross financial margin	6,206,375	5,373,636
Operating Expenses		
Administrative	1,183,971	1,159,914
Members' security	326,490	233,109
Occupancy	632,963	721,893
Organizational	227,015	220,899
Personnel	2,541,111	2,221,474
	4,911,550	4,557,289
Gross operating expenses	4,911,550	4,557,289
Less other income	1,130,308	1,112,842
	3,781,242	3,444,447
Gross operating income	2,425,133	1,929,189
Provision for doubtful loans	200,000	250,000
Income before patronage refund	2,225,133	1,679,189
Patronage refund (Note 11)	340,000	400,000
Income before income taxes	1,885,133	1,279,189
Provision for income taxes (Note 13)	183,829	186,501
Net income for the year	\$ 1,701,304	\$ 1,092,688

**CARPATHIA CREDIT UNION LTD.
Statement of Retained Surplus**

For the year ended September 30	2010	2009
Retained surplus, beginning of year	\$ 12,896,389	\$ 11,842,011
Net income for the year	1,701,304	1,092,688
Dividend on surplus shares (net of tax recoveries) (Note 11)	(29,480)	(38,310)
Retained surplus, end of year	\$ 14,568,213	\$ 12,896,389

CARPATHIA CREDIT UNION LTD. Statement of Cash Flows

For the year ended September 30

2010

2009

Cash Flows from Operating Activities

Net income for the year	\$ 1,701,304	\$ 1,092,688
Adjustments for		
Amortization	124,288	229,499
Patronage refund	340,000	339,508
Dividend on surplus shares (net)	(29,480)	(38,310)
Provision for doubtful loans	200,000	250,000
Accrued interest receivable	(115,452)	334,098
Accrued interest payable	(276,271)	232,981
Income taxes (recovery)	52,081	16,827
Other items, net	153,671	(582,748)
	<u>2,150,141</u>	<u>1,874,543</u>

Cash Flows from Financing Activities

Deposits payable, net of withdrawals	32,898,235	25,098,670
Issue of common shares, net of redemptions	(185)	175
Net redemption of surplus shares	(690,569)	(704,631)
	<u>32,207,481</u>	<u>24,394,214</u>

Cash Flows from Investing Activities

Loans receivable, net of repayments	(17,882,781)	(26,307,436)
Net (increase) decrease in investments	(10,499,266)	4,279,081
Purchases of property, plant and equipment (net)	(32,453)	(57,091)
	<u>(28,414,500)</u>	<u>(22,085,446)</u>

Net increase in cash and cash equivalents

5,943,122 4,183,311

Cash and cash equivalents, beginning of year

7,614,854 3,431,543

Cash and cash equivalents, end of year\$ 13,557,976 \$ 7,614,854**Supplementary Information**

Interest paid	\$ 5,609,030	\$ 6,630,811
Interest received	11,976,223	12,105,564
Income taxes paid	169,729	155,984

CARPATHIA CREDIT UNION LTD. Summary of Significant Accounting Policies

For the year ended September 30, 2010

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

Financial Instruments

The Credit Union recognizes and measures financial assets and financial liabilities on the Balance Sheet when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are recorded on a settlement date basis. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of each financial instrument. Held-for-trading items are carried at fair value, with changes in their fair value recognized in the statement of income. Available-for-sale items are carried at fair value, with changes in their fair value recognized as other comprehensive income. Loans and receivables and other financial liabilities are carried at amortized cost, using the effective interest method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the Credit Union has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

The Credit Union has followed the guidance of the Credit Union Deposit Guarantee Corporation of Manitoba, which directed that liquidity deposits with Credit Union Central of Manitoba and Loans and Mortgages be classified as "Loans and receivables" and that Deposits Payable be classified as "Other financial liabilities" and therefore that all be accounted for using the amortized cost method. See note 17 for details on classification of all the Credit Union's financial instruments.

Transaction costs for financial instruments are capitalized and then amortized over the term of the instrument using the effective interest rate method.

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the balance sheet at fair value. Changes in the value of derivative instruments (solely embedded derivatives) are recognized directly in income for the period under "Interest from loans".

CARPATHIA CREDIT UNION LTD. Summary of Significant Accounting Policies

For the year ended September 30, 2010

Financial Instruments (continued)

Other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets and the change in the effective portion of a cash flow hedge transaction. The Credit Union had no comprehensive income for the year.

Impairment of Financial Assets A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics. All impairment losses are recognized in the income statement.

Loans Receivable

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the Credit Union's portfolio. The allowance is increased by an annual provision for doubtful loans which is charged against income. Loans are considered uncollectible when the Credit Union has exhausted all means of collection. These loans are written-off against the associated provision.

The Credit Union maintains specific allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their estimated realizable amounts.

- Loans classified as impaired include loans for which interest or principal payments are 90 days past due, unless the loan is both well secured and in the process of collection, in which case, they are only classified as impaired if payments are 180 days past due. Loans are also considered impaired if, in management's view, there is no longer reasonable assurance of timely collection of the full amount of principal and interest in accordance with the terms of the loan agreement.
- Estimated realizable amounts are determined by discounting the expected cash flows at the effective interest rate inherent in the loan. If cash flows cannot be reasonably estimated, the fair value of any underlying security, net of expected realization costs, or an estimate of market price for the loan, is used.

CARPATHIA CREDIT UNION LTD. Summary of Significant Accounting Policies

For the year ended September 30, 2010

Impairment of Financial Assets (continued)

When the terms of loans that would otherwise be past due or impaired have been renegotiated, a review of the borrower's credit history and the collateral securing the loan is conducted to minimize the risk of loss to the Credit Union.

In addition to specific allowances against identified impaired loans, the Credit Union maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio and is estimated based upon historical loss experience and prevailing economic conditions.

Revenue Recognition

Interest on loans is recorded using the effective interest method except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Interest on investments is recorded using the effective interest method, except as it relates to adjustments in the rates received from Credit Union Central, these are recorded when payment is received.

Commissions and service charges are recognized as income when the related service is provided or entitlement to receive income is earned.

Other income is recorded as income as it becomes receivable, or as the Credit Union becomes aware of the income to be recorded.

Property, Plant and Equipment Property, plant and equipment acquired during the fiscal year ended September 30, 2010 have been reflected in the accounts at actual cost. Amortization of \$124,288 (2009 - \$229,499) charged to the 2010 operations of the Credit Union has been calculated on a straight-line basis using the following rates:

Building	3 $\frac{1}{2}$ %
Furniture and equipment	25%
Computer equipment	25% - 33%
Paved Lot	8%

Leasehold improvements are amortized over the term of the lease.

CARPATHIA CREDIT UNION LTD.
Summary of Significant Accounting Policies

For the year ended September 30, 2010

Income Taxes

The Credit Union follows the liability method of accounting for income taxes. Future income tax assets and liabilities are computed based on differences between the carrying amount of the assets or liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates at each balance sheet date. Future income tax assets also result from the carry forward of unused tax losses and other deductions. A future income tax asset is only recognized if it more likely than not that the future income tax asset will be realized.

The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

Net future income tax assets or liabilities are reflected in other assets or other liabilities, as appropriate.

Translation of Foreign Currencies

Cash resources and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the balance sheet date. Realized gains and losses are recorded at the rates prevailing at the time of the transaction. Unrealized gains and losses are recorded at the rates prevailing on the balance sheet date.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Credit Union, are as follows:

International financial reporting standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Credit Union's financial statements has yet to be determined.

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

1. Nature of Operations

The Credit Union was formed pursuant to the Credit Unions and Caisses Populaires Act of the Province of Manitoba (the "Act") and operates three credit union branches in the City of Winnipeg.

2. Change in Accounting Policy

On January 1, 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures amendments for additional disclosure about fair value measurements of financial instruments and liquidity risks. The purpose of this amendment is to enhance disclosure requirements, as such, it does not have a financial impact. Comparative information has not been presented because this information is not required in the year of adoption. These amendments are contained within Note 18 of these financial statements.

3. Investments

	<u>2010</u>	<u>2009</u>
Shares - at cost		
Credit Union Central of Manitoba	\$ 2,819,639	\$ 2,820,373
Concentra Financial Services Association	8,504	8,504
Kalyna Co-op Ltd.	1,099	1,099
Deposits - at cost		
Credit Union Central of Manitoba	<u>27,500,000</u>	17,000,000
	30,329,242	19,829,976
Accrued interest	<u>100,376</u>	16,156
	\$ 30,429,618	\$ 19,846,132

As the shares held in the Credit Union Central of Manitoba, Concentra Financial and Kalyna Co-op Ltd. have been classified as available for sale, they are valued at cost as quoted market prices do not exist. The contract and daily interest deposits in the Credit Union Central of Manitoba are deposits for liquidity purposes and are classified as loans and receivables and recorded at amortized cost.

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

4. Loans Receivable

Loans receivable are presented net of allowances for doubtful loans totalling \$669,683, consisting of \$31,247 for specific loans considered impaired and \$638,436 as non-specific.

	2010	2009
Consumer		
Term loans	\$ 13,803,711	\$ 15,974,861
Real estate	123,167,737	117,123,490
Lines of credit	10,215,787	8,745,419
Commercial		
Term loans	5,052,918	4,936,101
Real estate	89,711,063	79,579,107
Lines of credit	8,523,856	6,454,188
	250,475,072	232,813,166
Accrued interest receivable	465,781	434,549
	250,940,853	233,247,715
Allowance for doubtful loans	669,683	690,559
	\$250,271,170	\$232,557,156

During the current year, the Credit Union held \$60,105,498 in outstanding commercial loans relating to the real estate, rental, and leasing industry and \$26,696,776 in outstanding commercial loans to the accommodation and food services industry.

The following schedule provides the loan allowance related to each loan category, together with the gross amount of loans, including accrued interest, in each major loan category.

	2010		2009	
	Gross Loan Balances	Total Allowance	Gross Loan Balances	Total Allowance
Loans receivable				
Impaired				
Consumer				
Term loans	\$ 6,765	\$ 6,765	\$ 10,107	\$ 9,536
Real estate	126,104	-	-	-
Lines of credit	24,582	24,482	-	-
Commercial				
Lines of credit	-	-	8,746	8,746
	157,451	31,247	18,853	18,282
Performing	250,783,402	638,436	233,228,862	672,277
	\$ 250,940,853	\$ 669,683	\$ 233,247,715	\$ 690,559
	\$ 250,271,170		\$ 232,557,156	

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

4. Loans Receivable (continued)

The principal collateral and other credit enhancements held as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities.

During the year ended September 30, 2010, the Credit Union acquired \$33,427 of assets in respect of problem loans. The related reduction in allowance for doubtful loans was \$nil.

A loan is considered past due when a counterparty has not made a payment by the contractual date due. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

	2010			
	1-30 days	31-90 days	Greater than 90 days	Total
Consumer	\$ 1,956,079	\$ 288,118	\$ 39,777	\$ 2,283,974
Commercial	1,367,797	-	-	1,367,797
	\$ 3,323,876	\$ 288,118	\$ 39,777	\$ 3,651,771
	2009			
	1-30 days	31-90 days	Greater than 90 days	Total
Consumer	\$ 3,377,703	\$ 33,592	\$ 7,677	\$ 3,418,972
Commercial	718,442	188,523	-	906,965
	\$ 4,096,145	\$ 222,115	\$ 7,677	\$ 4,325,937

The following schedule provides the activity through the allowance for doubtful loans during the year:

	2010	2009
Balance, beginning of year	\$ 690,559	\$ 693,880
Provision for doubtful loans	200,000	250,000
Loans written-off	(220,876)	(253,321)
Balance, end of year	\$ 669,683	\$ 690,559

During the year, the Credit Union recovered \$44,855 of loans previously written-off (2009 - \$3,597) which is included as part of other income in the Statement of Income.

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

5. Property, Plant and Equipment

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 376,762	\$ -	\$ 376,762	\$ -
Building	2,035,263	1,486,068	2,036,535	1,414,833
Furniture and equipment	1,362,554	1,341,490	1,356,326	1,335,313
Computer equipment	878,373	843,621	860,176	833,061
Paved lot	80,555	72,742	75,313	70,042
Leasehold improvements	498,759	469,017	494,701	435,399
	\$ 5,232,266	\$ 4,212,938	\$ 5,199,813	\$ 4,088,648
Cost less accumulated amortization		\$ 1,019,328		\$ 1,111,165

6. Other Assets

	2010	2009
Accounts receivable	\$ 29,921	\$ 19,610
Prepaid expenses	275,899	266,655
Current income taxes receivable	-	17,217
Future income tax asset	90,000	92,000
	\$ 395,820	\$ 395,482

7. Deposits Payable

	2010	2009
Savings	\$ 67,393,914	\$ 62,004,788
Term deposits	117,800,989	98,585,099
Registered deposits	59,956,367	53,441,908
Chequing	31,066,324	29,287,564
Unclaimed accounts	115,389	115,389
	276,332,983	243,434,748
Accrued interest payable	2,891,387	3,167,658
	\$279,224,370	\$246,602,406

CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements

For the year ended September 30, 2010

8. Credit Union Central of Manitoba

The Credit Union has approved lines of credit with Credit Union Central of Manitoba in the amount of 10% of its deposits payable. For the current year, this amounts to approximately \$27.9 million dollars. The line of credit bears interest at a floating rate and is secured by an assignment of shares and deposits in Credit Union Central of Manitoba and a general assignment of loans receivable.

At September 30, 2010, the line of credit was unutilized.

9. Accounts Payable and Other Liabilities

	<u>2010</u>	<u>2009</u>
Accrued expenses and trade accounts	\$ 314,237	\$ 157,461
Credit Union Deposit Guarantee Corporation assessment	62,080	56,906
Current income taxes payable	34,864	-
Outstanding certified cheques and money orders	8,105	75,605
Deferred revenues	185,209	169,474
	<u>\$ 604,495</u>	<u>\$ 459,446</u>

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

10. Members' Shares

Each member must purchase one common share. No member may hold more than 10% of the issued shares in any class. Each member of the Credit Union has one vote, regardless of the number of shares that a member holds.

Authorized shares

Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than \$5 and redeemable in the amount of consideration received for the share. The total amount of common shares purchased or redeemed by the Credit Union shall not reduce the Credit Union's equity below 5% of assets.

Surplus shares

Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price per share of \$1 and redeemable at the option of the Credit Union at \$1 per share. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not reduce the Credit Union's equity below 5% of assets.

Issued shares

	2010			2009
	Common Shares	Surplus Shares	Total Members' Shares	Total Members' Shares
Balance, beginning of year	\$ 62,045	\$ 1,164,995	\$ 1,227,040	\$ 1,467,496
Shares issued	2,200	361,214	363,414	657,711
Shares redeemed	(2,385)	(651,783)	(654,168)	(898,167)
Balance, end of year	\$ 61,860	\$ 874,426	\$ 936,286	\$ 1,227,040

11. Provision for Issue of Surplus Shares

The Board of Directors has approved that the payment of a patronage refund of approximately \$340,548 (2009 - \$339,508) be allocated to the members from the net income for 2010. In addition, a dividend of \$33,500 (2009 - \$44,000) has been approved for distribution and is included in accounts payable.

This patronage refund has been reflected in these financial statements as an expense in the current year. Also, the current year's provision for income taxes has been calculated, which has resulted in a reduction in the income tax provision of approximately \$40,800 (2009 - \$51,600). The dividend has been presented through equity net of tax recoveries of \$4,020 (2009 - \$5,690) resulting in a net charge of \$29,480 (2009 - \$38,310).

When paid, this refund will be distributed to members on the basis of interest paid or received with respect to loans and deposits. The patronage refund is intended to be used for the purchase of additional surplus shares, and has been reflected in the Members' Capital on the balance sheet as "Provision for issue of member shares".

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

12. Capital Requirement

Regulations to the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- total members' capital as shown on the balance sheet shall not be less than 5% of the book value of assets;
- retained surplus shall not be less than 3% of the book value of assets; and
- total capital as calculated in accordance with the Act shall not be less than 8% of the risk-weighted value of its assets.

The Credit Union considers its capital to be comprised of common and surplus shares, provision for issue of surplus shares and retained surplus. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk-weighted value of its assets in accordance with the Regulations of Act which establishes the applicable percentage for each class of assets. The Credit Union's risk-weighted value of its assets as at September 30, 2010 was \$168,964,554.

As at September 30, 2010, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of 5.36% (2009 - 5.52%), a retained surplus ratio of 4.93% (2009 - 4.93%) and a risk-weighted asset ratio of 9.72% (2009 - 9.81%).

13. Income Taxes

	<u>2010</u>	<u>2009</u>
Components of provision for income taxes		
Current income tax expense	\$ 181,829	\$ 178,501
Future income tax expense	2,000	8,000
	<u>\$ 183,829</u>	<u>\$ 186,501</u>

The total provision for income taxes in the statement of income and retained surplus is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	<u>2010</u>	<u>2009</u>
	%	%
Combined federal and provincial statutory income tax rates	30.3	31.9
Credit Union rate reduction	(18.3)	(19.6)
Other	(2.2)	2.3
	<u>9.8</u>	<u>14.6</u>

The tax effects of temporary differences which give rise to the net future income tax assets reported in other assets is related to the allowance for doubtful loans.

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

14. Commitments

Loans Receivable

The Credit Union had made commitments to members and associates for loans that had not been disbursed by the September 30, 2010 year end in the approximate amount of \$21,551,772. In addition, the unutilized portions of lines of credit extended to members and associates as at September 30, 2010 were \$21,248,182. The Credit Union also has made commitments to members and associates for unexpired letters of credit in the amount of \$306,142 as at September 30, 2010. These commitments are due on demand.

Lease Commitments

The Credit Union operates its branches (with the exception of Head Office and the Main Street Branch) under leased premises. Contractual obligations in respect of leases for premises and equipment require the following aggregate minimum payments:

2011	\$	112,561
2012		74,532
2013		70,521
2014		38,625
2015		-

15. Contingencies

The Credit Union, in the course of its operations, is subject to lawsuits. As a policy, the Credit Union will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. At present, the Credit Union has no reason to believe that there are any lawsuits which will have a significant impact on the Credit Union's financial position.

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

16. Related Party Transactions

The Credit Union Deposit Guarantee Corporation

The Credit Union Deposit Guarantee Corporation was created under the Act for the purposes of guaranteeing deposits in Manitoba credit unions, and promoting sound business practices in credit unions.

The payments made to the Corporation during the year ended September 30, 2010 represent the net statutory annual assessment in the amount of \$240,183 (2009 - \$155,478).

Credit Union Central of Manitoba

The Credit Union is a member of Credit Union Central of Manitoba, which provides banking and other services to Credit Unions in Manitoba.

Details of investments in Credit Union Central of Manitoba are shown in Note 3. Interest earned on investments during the year amounted to \$650,661 (2009 - \$630,584).

Payments made to Credit Union Central of Manitoba during the year ended September 30, 2010 for affiliation dues and cheque clearing fees totalled \$295,679 (2009 - \$271,167).

Celero Solutions

The Credit Union currently utilizes the services of Celero Solutions to provide the delivery of some banking system services and the maintenance of the infrastructure needed to ensure uninterrupted delivery of such services. Celero Solutions is a company formed as a joint venture by the Credit Union Centrals of Alberta, Saskatchewan and Manitoba along with Concentra Trust Ltd. and Credit Union Electronic Transaction Services. Payments made to Celero Solutions during the year ended September 30, 2010 for these services totalled \$77,225 (2009 - \$74,714).

Directors and Officers

During the year, the Credit Union made the following payments to (or on behalf of) the directors and officers of the Credit Union for expenses associated with the performance of their duties:

	<u>2010</u>	<u>2009</u>
Honouraria and per diems	\$ 37,330	\$ 33,880
Meeting, training and conference costs	29,734	29,469
	<u>\$ 67,064</u>	<u>\$ 63,349</u>

During the year, all loans, deposits and fees that were made to, received from, or charged to directors or persons in whom any of them has a material interest, conform to the Credit Union's normal practices for members who are not directors.

As at September 30, 2010, outstanding loans to directors and committee members totalled 0.46%, in aggregate, of the assets of the Credit Union.

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

17. Financial Instrument Risk Exposure and Management

This note describes the Credit Union's objectives, policies and processes for managing risks arising from financial instruments and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The following table presents the principal financial instruments used by the Credit Union from which financial instrument risk arises:

Class of Financial Instrument	<u>Categories of Financial Assets and Financial Liabilities</u>			
	Held for Trading	Loans & Receivables	Available for Sale	Other Financial Liabilities
Funds on deposit	\$ 13,557,976	\$ -	\$ -	\$ -
Investments				
liquidity deposits	-	27,600,376	-	-
shares	-	-	2,829,242	-
Loans receivable	-	250,271,170	-	-
Accounts receivable	-	29,921	-	-
Deposits payable	-	-	-	279,224,370
Accounts payable	-	-	-	419,286

There have been no substantive changes in the Credit Union's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them from previous periods unless otherwise stated in this note.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board receives monthly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is mainly exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

17. Financial Instrument Risk Exposure and Management (continued)

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

Objectives, Policies and Processes

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration.
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness.
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods.
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations.
- Loan delinquency controls regarding procedures followed for loans in arrears.
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board also receives an analysis of bad debts and allowance for doubtful loans quarterly.

Maximum Exposure to Credit Risk

The Credit Union's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

	Carrying value	2010 Maximum exposure	2009 Maximum exposure
Credit Union Central of Manitoba deposits	\$ 27,500,000	\$ 27,500,000	\$ 17,000,000
Loans receivable	250,271,170	250,271,170	232,557,156
Undisbursed loans	-	21,551,772	13,801,417
Unutilized lines of credit	-	21,248,182	18,059,274
Unexpired letters of credit	-	306,142	1,231,584
	\$277,771,170	\$320,877,266	\$282,649,431

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

17. Financial Instrument Risk Exposure and Management (continued)

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Note 4.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is \$nil.

Liquidity Risk

Liquidity and funding risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet its commitments as they come due.

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of its clients and counterparties.

Objectives, Policies and Processes

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Act require the Credit Union to maintain a certain amount of liquid assets in order to meet member withdrawals.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

As at September 30, 2010, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	\$ 41,130,769
Total liquidity requirement	<u>22,337,950</u>
Excess of liquidity requirement	<u>\$ 18,792,819</u>

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

17. Financial Instrument Risk Exposure and Management (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

September 30, 2010

	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 Month	1 - 3 Months	3 - 12 Months	Greater than 1 year
(in thousands of dollars)						
Deposits	\$ 279,224	\$ (290,287)	\$ (114,558)	\$ (13,220)	\$ (78,033)	\$ (84,476)
Payables	419	(419)	(419)	-	-	-
	\$ 279,643	\$ (290,706)	\$ (114,977)	\$ (13,220)	\$ (78,033)	\$ (84,476)

September 30, 2009

	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 Month	1 - 3 Months	3 - 12 Months	Greater than 1 year
(in thousands of dollars)						
Deposits	\$ 246,602	\$ (258,929)	\$ (105,245)	\$ (12,240)	\$ (58,169)	\$ (83,275)
Payables	290	(290)	(290)	-	-	-
	\$ 246,892	\$ (259,219)	\$ (105,535)	\$ (12,240)	\$ (58,169)	\$ (83,275)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. The Credit Union is exposed to market risk in its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectations of future price and yield movements.

Interest Rate Risk

Traditional banking activities, such as deposit taking and lending, expose the Credit Union to market risk, of which interest rate risk is the largest component. The Credit Union's goal is to manage the interest rate risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

17. Financial Instrument Risk Exposure and Management (continued)

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and loans receivable and interest paid on deposits payable. The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Credit Union Deposit Guarantee Corporation in accordance with the Credit Union's matching policy. This policy has been approved by the board of directors as required by Regulations of the Act. For the year ended September 30, 2010, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within six months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

Expected repricing or maturity date	Financial Statement Amounts		
	Assets	Liabilities and Member's Equity	Net Asset/Liability Mis-match
Variable	\$ 91,930,119	\$ 103,390,379	\$ (11,460,260)
0 to 6 months	28,061,451	47,862,347	(19,800,896)
6 to 12 months	18,659,266	51,924,101	(33,264,835)
1 to 2 years	23,205,965	32,147,309	(8,941,344)
2 to 3 years	27,484,439	16,078,106	11,406,333
3 to 4 years	45,747,605	12,166,573	33,581,032
4 to 5 years	54,803,571	12,764,154	42,039,417
over 5 years	622,022	-	622,022
Not interest sensitive	5,159,474	19,340,943	(14,181,469)
	\$ 295,673,912	\$ 295,673,912	\$ -

As at September 30, 2010, the weighted average rate for interest-bearing assets is 4.19% and for interest-bearing liabilities is 2.06%.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

17. Financial Instrument Risk Exposure and Management (continued)

The Credit Union's risk due to changes in interest rates is illustrated in the sensitivity analysis below. The expected change was calculated using financial modeling software based on the Credit Union's interest sensitive assets and liabilities as at September 30, 2010.

	<u>Expected Increase (decrease) in Net Income</u>
Increase in interest rates of 1%	\$ (969,000)
Decrease in interest rates of 1%	379,000

Foreign Exchange Risk

Another risk component of traditional banking activities is foreign exchange risk. The Credit Union's goal is to manage the foreign exchange risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its foreign exchange mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$1,000,000 in U.S. funds.

The Credit Union's risk due to changes in foreign currency rates is illustrated in the sensitivity analysis below:

	<u>Change in Exchange Rate</u>	
	-4.25%	+4.25%
Maximum unhedged US \$ exposure of \$1,000,000	\$ (42,500)	\$ 42,500

18. Fair Value of Financial Assets and Liabilities

The following represents the fair values of on and off balance sheet financial instruments of the Credit Union. The fair values disclosed exclude the value of assets and liabilities that are not considered financial instruments. In addition, the value of intangibles such as long-term member relationships are not included in the fair value amounts. The Credit Union considers the value of intangibles to be significant.

**CARPATHIA CREDIT UNION LTD.
Notes to Financial Statements**

For the year ended September 30, 2010

18. Fair Value of Financial Assets and Liabilities (continued)

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgement used in applying a wide range of acceptable valuation techniques in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2010			2009		
	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
(in thousands)						
Assets						
Funds on deposit	\$ 13,558	\$ 13,558	\$ -	\$ 7,615	\$ 7,615	\$ -
Investments	30,430	30,430	-	19,846	19,846	-
Loans receivable	250,271	253,255	2,984	232,557	238,595	6,038
Other	30	30	-	20	20	-
	\$ 294,289	\$ 297,273	\$ 2,984	\$ 260,038	\$ 266,076	\$ 6,038
Liabilities						
Deposits payable	\$ 279,224	\$ 280,329	\$ 1,105	\$ 246,602	\$ 249,527	\$ 2,925
Accounts payable	419	419	-	290	290	-
	\$ 279,643	\$ 280,748	\$ 1,105	\$ 246,892	\$ 249,817	\$ 2,925

Interest rate sensitivity is the main cause of changes in the fair value of the Credit Union's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

The Credit Union has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

CARPATHIA CREDIT UNION LTD. Notes to Financial Statements

For the year ended September 30, 2010

18. Fair Value of Financial Assets and Liabilities (continued)

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the company's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

All financial assets and liabilities are considered to be in the level 3 fair value measurement category. As the fair value calculations are based on unobservable inputs, management is of the opinion that there are no other reasonably possible alternative assumptions that could be applied to the valuation of these financial assets and liabilities.

During the year there were no transfers into or out of the Level 3 fair value measurement category.

19. Pension Plan

The Credit Union has a defined contribution pension plan for full-time employees. The contributions are held in trust by CUMIS and are not recorded in these financial statements. The Credit Union matches employee contributions at a rate of 6% of the employee salary. The expense and payment for the year ended 2010 was \$102,001 (2009 - \$94,828). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund the future benefits to plan members beyond matching employee contributions.

20. Comparative Figures

Certain of the comparative figures have been reclassified to provide better comparison with the current year's presentation. Net income for the year ended September 30, 2009 remains as previously reported.

BOARD OF DIRECTORS



Dr. Taras Babick - President



Bohdan Halkewycz - Vice-President



Donna Korban - Secretary



Walter Kulyk - Director



Ken Bielak - Director



Peter Washchyshyn - Director



Noella Pylypowich - Director



Demyan Hyworon - Director



Dr. George Chuchman - Director

OUR TEAM

Corporate Office Walter Dlugosh - Chief Executive Officer
Roman Jaworsky - Chief Financial Officer
Brian Petrynko - Vice President, Sales & Service
Lyndie Bourcier - Chief Operations Officer
Marion Wiebe - Executive Assistant
Vicki Nahuliak - Receptionist
Carolyn Wiebe - Manager, Commercial Business
David Todoruk - Commercial Account Manger
TJ Gross - Commercial Account Manger
Julia Baryluk - Senior Commercial Credit Administration Officer
Laura Sala - Commercial Credit Administration Officer
Kristina Ewchuk - Marketing & Community Relations Coordinator
Tracy Vandemosselaer - Senior Credit Administration Officer
Myrosia Chimuk - Credit Administration Officer
Galyna Andriyeshyn - Credit Administration Officer
Helen Krawczuk - Suchy - Accountant
Sylvia Arseny - Document Processor
Darka Perrella - Document Processor
Maria Melnyk - Filing
Iryna Kozak - Filing
Mary McLean - Filing

Main Branch Jaroslawa Middleton - Branch Manger
Irina Lisowski - Senior Member Services Representative
Galyna Basarab - Member Services Representative
Maryna Bubyry - Member Services Representative
Tetyana Dryhalo - Member Services Representative
Iryna Gumenyuk - Member Services Representative
Myroslava Mysiv - Member Services Representative
Volodymyr Shkliar - Member Services Representative

McPhillips Branch Garry Kolisnyk - Branch Manager
Julia Demko - Financial Services Representative
Ashley Elkiw - Financial Services Representative
Brandeis Orr - Senior Member Services Representative
Helen Alves - Member Services Representative
Tenille Black - Member Services Representative
Oksana Ivanenko - Member Services Representative
Ekaterina Romanyuk - Member Services Representative
Halyna Shmendyuk - Member Services Representative
Nola Wedlake - Member Services Representative
Yana Yamborko - Member Services Representative

Henderson Branch Shelly Maslechko - Branch Manager
Lesia Gojan-Klein - Financial Services Representative
Vitaliy Lebezun - Financial Services Representative
Karen Dubesky - Senior Member Services Representative
Katrusia Chabluk - Member Services Representative
Olena Kapustynska - Member Services Representative
Anna Myszczuk - Member Services Representative
Marjorie Rospad - Member Services Representative
Nicole Sawchuk-Feakes - Member Services Representative



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