Consolidated Financial Statements of

NORTHERN CREDIT UNION LIMITED

Year ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Members of Northern Credit Union Limited

We have audited the accompanying consolidated financial statements of Northern Credit Union Limited, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statement of income, the consolidated statements of comprehensive income and changes in members' equity, and the consolidated statement of cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Northern Credit Union Limited as at December 31, 2011, December 31, 2010 and January 1, 2010 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
February 23, 2012
Sault Ste. Marie, Canada

NORTHERN CREDIT UNION LIMITED

Consolidated Statement of Financial Position

Year ended December 31, 2011, with comparative figures for December 31, 2010 and January 1, 2010

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash and cash equivalents	$ 25,253,794	$ 30,063,394	$ 25,759,857
Investments (note 8)	76,508,134	79,044,595	53,058,186
Other assets (note 9)	1,100,165	1,005,072	1,135,312
Loans to members (note 5 and 6)	561,749,965	533,116,344	530,036,336
Deferred income taxes (note 16)	964,469	494,627	1,151,398
Property and equipment (note 10)	17,171,799	17,024,278	12,245,974
Intangible assets (note 10)	2,147,435	1,479,141	1,315,061
Total assets	$ 684,895,761	$ 662,227,451	$ 624,702,124
Liabilities and Members' Equity			
Members' deposits (note 11)	$ 634,290,723	$ 612,636,566	$ 566,881,567
Accounts payable and accrued liabilities	5,131,003	5,075,197	6,374,263
Short term borrowings	-	-	10,000,000
Liabilities qualifying as regulatory capital:			
Share capital (note 13)	10,008,977	9,929,156	9,877,477
Total liabilities	649,430,703	627,640,919	593,133,307
Members' equity:			
Contributed surplus	8,243,485	8,243,485	8,243,485
Retained earnings	27,102,724	26,124,461	23,241,911
Accumulated other comprehensive income	118,849	218,586	83,421
Total members' equity	35,465,058	34,586,532	31,568,817
Commitments and contingencies (note 15)			
Total liabilities and members' equity	$ 684,895,761	$ 662,227,451	$ 624,702,124

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

NORTHERN CREDIT UNION LIMITED

Consolidated Statement of Income

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Interest - residential mortgage loans	$ 17,263,694	$ 18,038,363
- personal loans	5,802,343	5,955,460
- commercial loans	6,010,130	5,591,549
Investment income	1,313,425	1,849,553
	30,389,592	31,434,925
Cost of financing:		
Interest - demand deposits	888,338	668,503
- term deposits	4,081,782	4,275,396
- registered savings plans	3,436,446	3,274,030
Distribution to members	234,568	233,638
Interest on external borrowings	1,795	54,765
	8,642,929	8,506,332
Net interest income	21,746,663	22,928,593
Net impairment (gain) loss on loans (note 6)	(160,051)	2,323,049
Net interest income after provision for impaired loans	21,906,714	20,605,544
Non-interest revenue	9,431,963	8,630,414
	31,338,677	29,235,958
Operating expenses:		
Salaries, wages and benefits	15,075,766	13,356,979
Board, delegate and committee	446,565	468,372
Data processing and clearing	1,141,700	1,474,079
General and administration	8,030,051	6,578,822
Insurance	1,032,553	932,646
Occupancy	2,027,653	1,880,167
Amortization and depreciation	1,519,399	1,255,440
	29,273,687	25,946,505
Operating income	2,064,990	3,289,453
Unrealized gains:		
Unrealized gain on interest rate swaps	217,091	63,329
Income before income taxes	2,282,081	3,352,782
Income taxes (note 16):		
Current	456,215	446,531
Deferred	(44,687)	466,871
	411,528	913,402
Net income	$ 1,870,553	$ 2,439,380

See accompanying notes to consolidated financial statements.

NORTHERN CREDIT UNION LIMITED

Consolidated Statements of Comprehensive Income and Changes in Members' Equity

Year ended December 31, 2011, with comparative figures for 2010

Consolidated Statement of Comprehensive Income

	2011	2010
Net income	$ 1,870,553	$ 2,439,380
Other comprehensive income, net of income taxes:		
Net change in fair value of available-for-sale financial assets, net of tax of $42,745 (2010 - $57,928)	(99,737)	135,165
Defined benefit plan actuarial gain (losses) net of income tax of $382,410 (2010 - $(189,900))	(892,290)	443,170
Comprehensive income	$ 878,526	$ 3,017,715

Consolidated Statement of Changes in Members' Equity

	2011	2010
Contributed surplus:		
Balance, beginning and end of year	$ 8,243,485	$ 8,243,485
Retained earnings:		
Balance, beginning of year	26,124,461	23,241,911
Net earnings	1,870,553	2,439,380
Defined benefit plan actuarial gains (losses), net of tax	(892,290)	443,170
Balance, end of year	27,102,724	26,124,461
Accumulated other comprehensive income:		
Representing the fair value reserve		
Balance, beginning of year	218,586	83,421
Net change in fair value of available-for-sale financial assets, net of tax	(99,737)	135,165
Balance, end of year	118,849	218,586
Members' equity, end of year	$ 35,465,058	$ 34,586,532

See accompanying notes to consolidated financial statements.

NORTHERN CREDIT UNION LIMITED

Consolidated Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash flows from operating activities:		
Net income	$ 1,870,553	$ 2,439,380
Adjustments for:		
Change in non-cash items:		
Net interest income	(21,746,663)	(22,928,593)
Provision for impaired loans	(160,051)	2,323,049
Provision for income tax	411,528	913,402
Depreciation and amortization	1,519,399	1,255,440
Net change in derivative financial instruments	(217,091)	(63,329)
Gain on disposition of property and equipment	-	(143,597)
	(18,322,325)	(16,204,248)
Changes in other assets:		
Changes in other assets	(95,093)	130,240
Changes in accounts payable and accrued liabilities	(1,863,111)	226,412
	(1,958,204)	356,652
Changes in member activities (net):		
Changes in member loans	(28,359,270)	(5,447,628)
Changes in member deposits	20,991,808	46,160,517
	(7,367,462)	40,712,889
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	28,961,867	29,629,943
Interest received on investments	1,064,095	2,079,443
Interest paid on member deposits	(8,063,118)	(8,857,085)
Interest paid on external borrowings	(1,795)	(54,765)
Income taxes paid (recovered)	60,602	(1,350,948)
	22,021,651	21,446,588
	(5,626,340)	46,311,881
Cash flows from financing activities:		
Issuance (redemption) of membership shares	(7,263)	7,051
Redemption of Class A patronage shares	(84,439)	(79,157)
Issuance of Class B investment shares	171,523	123,785
Repayment of Central 1 Credit Union loan	-	(10,000,000)
	79,821	(9,948,321)
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	-	575,285
Proceeds from sale of investments	3,072,133	-
Purchase of investments	-	(26,017,805)
Additions to intangible assets	(723,357)	(164,080)
Additions to property and equipment	(1,611,857)	(6,453,423)
	736,919	(32,060,023)
Net increase (decrease) in cash and cash equivalents	(4,809,600)	4,303,537
Cash and cash equivalents, beginning of year	30,063,394	25,759,857
Cash and cash equivalents, end of year	$ 25,253,794	$ 30,063,394

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Northern Credit Union Limited (the "Credit Union"), was incorporated under the laws of Ontario and operates in compliance with the Credit Union Caisse Populaires Act of Ontario (the "Act"). The Credit Union is a member of the Deposit Insurance Corporation of Ontario ("DICO") and of the Central 1 Credit Union. The Credit Union is domiciled in Canada. The address of the Credit Union's registered office is 280 McNabb Street, Sault Ste. Marie, Ontario. The Credit Union is primarily involved in corporate and retail banking.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). This is the first time that the Credit Union has prepared its consolidated financial statements in accordance with IFRS, having previously prepared its consolidated financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (pre-changeover Canadian GAAP). An explanation on how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 22.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 23, 2012.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- non-derivative financial instruments at fair value through profit or loss are measured at fair value
- available for sale financial assets are measured at fair value
- the liability for defined benefit obligation is recognized as the present value of the defined benefit obligations less the total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

(c) Functional and presentation currency:

The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

2. Basis of preparation (continued):

(d) Use of estimates and judgments:

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Credit Union's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 below.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of transitioning to IFRSs.

(a) Basis of consolidation:

The consolidated financial statements include the financial statements of the wholly-owned subsidiary company, 2011500 Ontario Limited. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. All material intercompany transactions and balances have been eliminated.

(b) Loans receivable from members:

Loans are initially measured at fair value plus incremental direct transaction costs less loan fees received and subsequently remeasured at their amortized cost using the effective interest method. Loans receivable from members are reported net of an allowance for credit losses.

(i) Loan interest:

Interest income from loans is recorded on the effective yield basis. Accrued but uncollected interest is provided for when loans are determined to be impaired.

(ii) Provision for credit losses:

The Credit Union maintains a provision for credit losses, which, in management's opinion, is considered adequate to provide for credit-related losses.

The Credit Union considers evidence of impairment for loans receivable at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

3. Significant accounting policies (continued):

(ii) Provision for credit losses (continued):

In assessing collective impairment the Credit Union uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(c) Interest income and expense:

Interest income and expense are recognized in the consolidated statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received and transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(d) Non-interest revenue:

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3. Significant accounting policies (continued):

(d) Non-interest revenue (continued):

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity investment.

(e) Cash and cash equivalents includes cash on hand, current accounts, cheques and other items in transit. Given their short term nature, the carrying value of cash and cash equivalents equals fair value.

(g) Financial instruments – non-derivative financial instruments:

The Credit Union initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognized as a separate asset or liability.

The Credit Union has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Non-derivative financial instruments comprise cash and cash equivalents, investments, loans to members, members' deposits, accounts payable and accrued liabilities and liabilities qualifying as regulatory capital.

3. Significant accounting policies (continued):

(g) Financial instruments – non-derivative financial instruments (continued):

Fair value through profit and loss:

Financial assets and liabilities designated as fair value through profit and loss (“FVTPL”) are financial instruments either classified as held for trading (“HFT”) or are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. HFT financial assets and liabilities are acquired or incurred principally for resale, generally within a short period of time.

FVTPL financial assets and liabilities are measured at fair value at each reporting date. Gains and losses realized on disposal together with dividends and interest earned on these instruments are reported in interest and investment income. Unrealized gains and losses from market fluctuations are reported separately in the consolidated statement of income. There are regulatory restrictions imposed by the Financial Services Commission of Ontario on the use of this designation including that loan financial assets are precluded from being designated at FVTPL and that the fair value designated financial instruments are managed on a fair value basis.

Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has the legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as the Credit Union’s trading activities.

Held to maturity:

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that the Credit Union has the positive intention and ability to hold to maturity. These financial assets are initially recognized at fair value including direct and incremental transaction costs. They are subsequently accounted for at amortized cost using the effective interest rate method.

3. Significant accounting policies (continued):

(g) Financial instruments – non-derivative financial instruments (continued):

Available for sale:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Credit Union's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(b) (ii)), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Other liabilities:

The Credit Union has designated all financial liabilities with the exception of derivatives as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense. Transaction costs related to Other Liabilities are capitalized and then amortized over the life of the instrument using the effective interest method.

(h) Financial instruments - derivative financial instruments:

Derivative financial instruments are financial contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. The Credit Union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates and other financial indices such as interest rate swaps and equity swap agreements. The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are closely related to the host contracts. Changes in the fair value of those derivative instruments are recognized in net income for the year. The Credit Union does not apply hedge accounting on its derivative portfolio.

3. Significant accounting policies (continued):

(i) Financial instruments – derecognition:

For securitization transactions initiated prior to the date of transition to IFRS, in accordance with pre-changeover Canadian GAAP, the loan securitizations were treated as a sale, provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. Gains on these transactions were reported as non-interest revenue. The amount of these gains are based on the present value of expected future cash flows using management's best estimates and key assumptions such as prepayment rates, excess spread, credit (losses) and discount rates. The Credit Union has a contractual obligation to service the loans on behalf of the transferee.

For securitization transactions initiated after the date of transition to IFRS, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

(j) Other assets:

Included in other assets are costs incurred in equity swap agreement hedge premiums and prepaid software maintenance costs. Hedge premiums are recorded as expense using the effective interest rate method over the term of the agreement.

(k) Intangible assets:

Computer software that is not an integral part of other property and equipment is accounted for as intangible assets. Computer software is stated at cost less accumulated amortization and is presented as part of property and equipment on the consolidated statement of financial position. Amortization of computer software is calculated by applying the straight-line method at rates based on estimated useful lives between 3 and 10 years.

3. Significant accounting policies (continued):

(l) Property and equipment:

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5 to 50 years
Parking areas	3 to 50 years
Furniture, office and computer equipment	3 to 20 years
Automated banking machines	5 to 10 years
Leasehold improvements	5 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

(m) Impairment of non-financial assets:

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has 25 cash-generating units. Impairment charges are included in net income.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

3. Significant accounting policies (continued):

(n) Income taxes (continued):

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(o) Foreign currency translation:

The consolidated financial statements are presented in Canadian dollars, which is the Credit Union's presentation and functional currency. Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchanges rates in effect on the date of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3. Significant accounting policies (continued):

(p) Employee retirement benefits:

i) Defined benefit plans

The Credit Union provides retirement benefits to certain management employees. These benefits include a registered pension plan.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Credit Union's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Credit Union's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Credit Union, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Credit Union. An economic benefit is available to the Credit Union if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Credit Union recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in retained earnings.

ii) Defined contribution plans

The Credit Union also has defined contribution plans providing pension benefits for all other employees.

3. Significant accounting policies (continued):

(p) Employee retirement benefits (continued):

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(q) Leased assets:

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognized in the Credit Union’s statement of financial position. Investment property held under an operating lease is recognized in the Credit Union’s statement of financial position at its fair value.

(r) Provisions:

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(s) New standards and interpretations not yet effective:

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union’s accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

3. Significant accounting policies (continued):

(s) New standards and interpretations not yet effective (continued):

i. IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Credit Union is in the process of evaluating the impact of the new standard.

ii. IFRS 13 *Fair Value Measurement* defines fair value, provides guidance on the measurement of fair value, and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

iii. IAS 19 *Employee Benefits*

The amendments require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income
- Full recognition of past service costs immediately in profit or loss
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation
- Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 *Provisions*, and when the entity can no longer withdraw the offer of the termination benefits.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

3. Significant accounting policies (continued):

(s) New standards and interpretations not yet effective (continued):

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided to early adopt. The Credit Union has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Credit Union to restate derecognition transactions that occurred before the date of transition to IFRS. The amendment is effective for year-ends beginning on or after July 1, 2011 however, the Credit Union has early adopted the amendment. The impact of the amendment and early adoption is that the Credit Union only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

4. Critical accounting estimates and judgments:

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Fair value of financial instruments:

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods, and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in note 18.

Member loan loss provision:

In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist, the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

4. Critical accounting estimates and judgments (continued):

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in note 6.

Income taxes:

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit by the tax authorities based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

5. Loans to members:

December 31, 2011	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 373,395,026	$ 35,301	$ 373,359,725
Personal loans	83,107,124	907,083	82,200,041
Commercial loans	107,488,093	1,297,894	106,190,199
	$ 563,990,243	$ 2,240,278	$ 561,749,965

December 31, 2010	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 362,984,275	$ 109,237	$ 362,875,038
Personal loans	85,009,062	1,141,754	83,867,308
Commercial loans	88,260,009	1,886,011	86,373,998
	$ 536,253,346	$ 3,137,002	$ 533,116,344

January 1, 2010	Principal and interest	Allowance for impaired loans	Net
Residential mortgage loans	$ 356,454,551	$ 68,123	$ 356,386,428
Personal loans	91,491,404	1,391,525	90,099,879
Commercial loans	84,187,498	637,469	83,550,029
	$ 532,133,453	$ 2,097,117	$ 530,036,336

5. Loans to members (continued):

Commercial loans consist of the following loan types:

	December 31, 2011	December 31, 2010	January 1, 2010
Commercial	$ 99,546,547	$ 80,241,314	$ 79,590,336
Syndicated	6,914,436	7,236,003	3,670,340
Agricultural	-	167,086	279,029
Institutional	956,281	529,620	576,872
Unincorporated associations	70,829	85,986	70,921
Allowance for impaired loans	(1,297,894)	(1,886,011)	(637,469)
	$ 106,190,199	$ 86,373,998	$ 83,550,029

Certain Residential Mortgage Loans are securitized and have been legally transferred to other entities for funding purposes. These loans are administered by the Credit Union and recognized on the consolidated statement of financial position to the extent of the Credit Union's continuing involvement. A summary of the carrying values of Residential Mortgage Loans is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Loans held by the Credit Union	$ 563,990,243	$ 536,253,346	$ 532,133,453
Loans transferred to Central 1	10,526,556	13,562,825	15,154,744
	$ 574,516,799	$ 549,816,171	$ 547,288,197

The following summarizes the Credit Union's loan portfolio by the contractual repricing or maturity date, whichever is earlier:

	2011		2010	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	$ 141,779,449	5.05%	$ 160,225,724	4.47%
Within 1 year	123,339,223	5.95%	50,566,257	5.23%
Over 1 year	298,871,571	5.51%	325,461,365	5.60%
	563,990,243	5.49%	536,253,346	5.23%
Provision for loan losses	2,240,278		3,137,002	
	$ 561,749,965		$ 533,116,344	

5. Loans to members (continued):

	January 1, 2010 Principal Balance	January 1, 2010 Average Yield
Floating	$ 186,709,378	4.20%
Within 1 year	42,529,595	5.65%
Over 1 year	302,894,479	6.00%
	532,133,453	5.34%
Provision for loan losses	2,097,117	
	$ 530,036,336	

6. Allowance for impaired loans:

Details of the activity in the allowance for impaired loans are as follows:

	Residential Mortgage Loans	Personal Loans	Commercial Loans	2011 Total	2010 Total
Balance, beginning of year	$ 109,237	1,141,754	1,886,011	3,137,002	$ 2,097,116
Recoveries	-	125,363	-	125,363	130,671
Loans written-off	(137,097)	(703,341)	(21,598)	(862,036)	(1,413,834)
Provision for impaired loans during the year	63,161	343,307	(566,519)	(160,051)	2,323,049
Balance, end of year	$ 35,301	907,083	1,297,894	2,240,278	$ 3,137,002

For the year ended December 31, 2011, interest of $93,431 was recorded on impaired loans (2010 - $261,572).

Details of the impaired loans, net of specific allowances are as follows:

December 31, 2011	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 3,728,306	1,152,923	3,469,504	8,350,733
Specific allowance	20,913	841,471	1,277,895	2,140,279
Net	$ 3,707,393	311,452	2,191,609	6,210,454

6. Allowance for impaired loans (continued):

December 31, 2010	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 2,267,267	1,585,934	3,040,496	6,893,697
Specific allowance	74,625	1,056,366	1,786,011	2,917,002
Net	$ 2,192,642	529,568	1,254,485	3,976,695

January 1, 2010	Residential Mortgage Loans	Personal Loans	Commercial Loans	Total
Impaired loans	$ 3,067,714	1,680,558	635,288	5,383,560
Specific allowance	42,549	1,257,099	487,469	1,787,117
Net	$ 3,025,165	423,459	147,819	3,596,443

The Credit Union's commercial loan portfolio contains Member concentration risk, whereby a large amount of the loans are connected to certain individuals. Collectively, the largest five commercial Members by loan dollar value are associated with approximately 17% (2010 - 16%) of the commercial loan portfolio.

The Credit Union's commercial loan portfolio consists of the following industry sectors:

	December 31, 2011	December 31, 2010	January 1, 2010
Hospitality	10%	15%	13%
Retail & Commercial Buildings	54%	57%	59%
Other	36%	28%	28%

Past due but not impaired loans:

The Credit Union has the following loans that are past due but not impaired:

	December 31, 2011	December 31, 2010	January 1, 2010
31 to 90 days past due	$ 3,438,488	$ 2,204,697	$ 3,570,292

6. Allowance for impaired loans (continued):

Collateral:

There are documented policies and procedures in place for the valuation of financial and non-financial collateral. The fair valuation exercise of non-financial collateral is performed if there has been a significant change in the terms and conditions of the loan and (or) the loan is considered impaired. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loan.

The amount and type of collateral and other credit enhancements required depend upon the Credit Union's assessment of counterparty credit quality and repayment capacity. The Credit Union complies with industry standards for collateral valuation, frequency of recalculation of the collateral requirements, documentation, registration and perfection procedures and monitoring. Non-financial assets accepted by the Credit Union as collateral include vehicles, residential real estate, real estate under development, commercial real estate and certain business assets (accounts receivable, inventory, property and equipment). Financial collateral includes cash and negotiable securities issued by governments and investment grade issuers. Guarantees and are also accepted to reduce credit risk. The Credit Union also use credit insurance on mortgage loans to reduce the credit risk.

The fair value of collateral held with respect to assets that are either past due greater than 30 days or impaired is $5,595,156 as at December 31, 2011 (2010 - $3,415,778, January 1, 2010 - $3,697,325).

Credit risk:

The following tables illustrate the credit quality of loans that are neither past due nor impaired:

Credit quality of loans – December 31, 2011

Retail Mortgage and Personal Loans		Commercial Loans	
Rating	**% of Portfolio**	**Rating**	**% of Portfolio**
Undoubted	27%	Superior	10%
Superior	2%	Satisfactory	87%
Satisfactory	70%	Watch List	3%
Watch list	1%		

Refer to Note 21 – Financial Risk Management for a detailed explanation of the credit risk rating process of both portfolios.

7. Mortgage securitizations:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund loan growth by selling residential mortgages to unrelated third parties.

As part of these mortgage receivable transfers, the Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. The Credit Union's retained interest in the mortgages sold also consists of their right to future cash flows arising from any excess of the mortgage cash flows over and above the contractual return due to the mortgage pool investors. The Credit Union's retained interests are subject to credit, prepayment, and interest rate risks on the securitized mortgages.

The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets.

The total amount of securitized mortgages under administration as at December 31, 2011 was $10,526,556 (2010 - $13,562,825, January 1, 2010 - $15,154,744).

The total amount of retained interests to future excess spread recorded in increments as at December 31, 2011 was $450,695 (2010 - $524,172, January 1, 2010 - $611,362). The component of retained interests related to future excess spread are designated as Available for Sale.

Sensitivity of key assumptions to adverse changes

The fair value of the retained interests for the securitization activity for the year ending December 31, 2011 is $450,695 (2010 - $524,173, January 1, 2010 - $611,362). The fair value of the retained interest is primarily impacted by the prepayment rate assumption used in measuring the retained interest. An increase in the prepayment rate would cause a reduction in the fair value of the retained interest, while a decrease would in turn lead to an increase in the fair value of the retained interest. The Credit Union derives the prepayment rate assumption based upon actual historical experience, adjusted for any changes in the interest rate environment.

At year end, the key economic assumptions and the sensitivity of the current fair value of retained interests related to excess spread receivables of two different adverse changes in those assumptions are as follows:

Prepayment rate:		
Impact of a 5% increase in prepayment rate (annual %)	$	(30,409)
Impact of a 10% increase in prepayment rate (annual %)	$	(59,791)
Excess spread:		
Impact of a 0.5% point adverse change	$	(90,116)
Impact of a 1% point adverse change	$	(179,429)

8. Investments:

	December 31, 2011	December 31, 2010	January 1, 2010
Available for sale:			
Central 1 Credit Union Limited:			
Class A shares	$ 2,485,183	$ 1,469,313	$ 1,530,591
Class E shares	2,970,700	2,970,700	2,200,800
Credit Union Central of Ontario:			
Limited shares	-	17,348	787,248
Cost, net of distributions received and write down	5,455,883	4,457,361	4,518,639
Retained rights loan securitizations	450,695	524,173	611,362
Other investments	6,682	6,682	6,682
Fair value through profit and loss			
CUCO Cooperative Association	3,045,891	-	-
ABCP 2008 Limited Partnership	-	3,134,424	2,744,593
Loans and receivables:			
Central 1 liquidity reserve deposits	41,144,234	45,273,486	44,298,551
Central 1 term deposits	25,506,950	25,000,000	-
Accrued interest on investments	617,799	368,469	598,359
Other investment	280,000	280,000	280,000
	$ 76,508,134	$ 79,044,595	$ 53,058,186

The following summarizes the Credit Union's investments by the contractual repricing or maturity date, whichever is earlier:

	2011		2010	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Within 1 year	$ 56,019,183	1.51%	$ 54,404,248	1.44%
Over 1 year	10,632,001	1.09%	15,869,240	1.67%
	66,651,184	1.44%	70,273,488	1.50%
Non-rate sensitive	9,239,151		8,402,638	
Accrued interest	617,799		368,469	
	$ 76,508,134		$ 79,044,595	

8. Investments (continued):

	January 1, 2010 Principal Balance	January 1, 2010 Average Yield
Within 1 year	$ 21,558,582	2.95%
Over 1 year	22,739,969	2.50%
	44,298,551	2.72%
Non-rate sensitive	8,161,276	
Accrued interest	598,359	
	$ 53,058,186	

a) Shares in Central 1:

As a member of Central 1, the Credit Union is required to maintain an investment in Central 1 shares equal to its share of the level of capital required by Central 1. The Credit Union's Share of Central 1 capital requirements are based on asset size relative to other Class "A" members. Central 1 rebalances the investment annually.

When Credit Union Central of Ontario Limited ("CUCO") and Credit Union Central of British Columbia ("CUCBC") merged to form Central 1, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. As there is no active market for these shares, the shares are not sellable, and, as a result of continued investment in these shares, the Credit Union receives significant benefits from Central 1, fair market value is not reliably determinable as future cash flows cannot be adequately predicted with a standard valuation technique. As a result, these shares are carried at cost. The Credit Union does not intend to dispose of the shares in the near future.

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1 equal to 0.90% of its assets as of the preceding calendar year end, updated in February of each year. The shares may be surrendered upon withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Central 1 by-law providing for the redemption of its share capital.

b) Investment in CUCO Cooperative Association (formerly 2176100 Ontario Ltd (ABCP 2008 Limited Partnership)):

As a result of the merger between CUCO and CUCBC to form Central 1 in 2008, member credit unions were required to invest in a limited partnership ("ABCP LP") in order to acquire third-party asset-backed commercial paper ("ABCP"). Members of CUCO were required to purchase units in the ABCP LP based on their proportionate asset size.

8. Investments (continued):

b) Investment in CUCO Cooperative Association (formerly 2176100 Ontario Ltd (ABCP 2008 Limited Partnership)) (continued):

On August 31, 2011, ABCP LP sold all of its assets to the CUCO Cooperative Association ("CUCO Co-op") in exchange for CUCO Co-op Class B Investment Shares. Subsequently, on September 2, 2011, ABCP transferred to the Credit Union its proportionate share of CUCO Co-op Class B Investment Shares. As a result, the Credit Union received 1,081,848,866 Class B Shares.

At December 30, 2011, and December 30, 2010 an independent valuation was completed on the underlying investments of the CUCO Co-op (and formerly ABCP 2008 LP) utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the statement of financial position date. As a result of this valuation, the carrying value of the investment in the CUCO Co-op on the Credit Union's balance sheet was increased to $3,045,891 (2010 - $3,134,424). During the year the Credit Union received $105,445 from the ABCP 2008 LP prior to the transfer of assets to CUCO Co-op, of which $ 105,444 has been recorded as a return of the initial capital invested and nil has been recorded as interest income. In addition, as these investments have been designated as FVTPL a fair value adjustment of $ 16,914 has been recorded in income for 2011 (2010 - $537,144).

c) Central 1 Liquidity reserve deposit:

The Credit Union is a member of Central 1. As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit an amount equal to 7% of its assets as at each calendar quarter end. The deposits bear interest at varying rates, dependent upon the term of the investment, and have been designated as Loans and Receivables. At December 31, 2011, the liquidity ratio was 12.20% (2010 - 16.46%, January 1, 2010 – 12.23%), which exceeded the minimum requirement.

d) Other shares:

The Credit Union maintains other instruments which are non-interest bearing. These shares have been designated as Available for Sale, but carried at cost as they are not traded in an active market and fair value cannot be measured reliably.

9. Other assets:

	December 31, 2011	December 31, 2010	January 1, 2010
Other	$ 432,171	$ 268,448	$ 193,296
Prepayments	667,994	736,624	942,016
	$ 1,100,165	$ 1,005,072	$ 1,135,312

10. Property and equipment and intangible assets:

			2011
	Cost	Accumulated depreciation	Carrying amount
Land	$ 2,641,559	$ -	$ 2,641,559
Parking areas	189,697	101,956	87,741
Buildings and improvements	17,093,433	6,133,402	10,960,031
Leasehold improvements	2,405,180	1,482,423	922,757
Furniture, office and computer equipment	8,896,103	7,301,447	1,594,656
Automated banking machines	1,162,019	214,065	947,954
Construction in progress	17,101	-	17,101
Tangible assets	32,405,092	15,233,293	17,171,799
Intangible assets (software)	2,202,498	55,063	2,147,435
	$ 34,607,590	$ 15,288,356	$ 19,319,234

			2010
	Cost	Accumulated depreciation	Carrying amount
Land	$ 2,641,559	$ -	$ 2,641,559
Parking areas	189,697	91,376	98,321
Buildings and improvements	17,011,223	5,438,590	11,572,633
Leasehold improvements	1,711,081	1,364,858	346,223
Furniture, office and computer equipment	8,135,087	6,768,753	1,366,334
Automated banking machines	1,084,282	105,380	978,902
Construction in progress	20,306	-	20,306
Tangible assets	30,793,235	13,768,957	17,024,278
Intangible assets (software)	1,479,141	-	1,479,141
	$ 32,272,376	$ 13,768,957	$ 18,503,419

10. Property and equipment and intangible assets (continued):

Depreciation and amortization in respect of the above assets for the year amounts to $1,460,103 (2010 - $1,255,440). Reconciliations of the carrying amount for each class of fixed asset are summarized below.

	2011	2010
Land		
Carrying amount at the beginning of the year:	$ 2,641,559	$ 2,665,408
Disposals	-	(23,849)
Carrying amount at the end of the year	$ 2,641,559	$ 2,641,559
Parking area		
Carrying amount at the beginning of the year;	$ 98,321	$ 3,711
Additions	-	99,382
Depreciation	(10,580)	(4,772)
Carrying amount at the end of the year	$ 87,741	$ 98,321
Buildings and improvements		
Carrying amount at the beginning of the year;	$ 11,572,633	$ 5,226,008
Additions	82,210	7,136,249
Disposals	-	(189,423)
Depreciation	(694,812)	(600,201)
Carrying amount at the end of the year	$ 10,960,031	$11,572,633
Leasehold improvements		
Carrying amount at the beginning of the year;	$ 346,223	$ 419,649
Additions	694,099	21,525
Depreciation	(117,565)	(94,951)
Carrying amount at the end of the year	$ 922,757	$ 346,223

10. Property and equipment and intangible assets (continued):

	2011	2010
Furniture, office and computer equipment		
Carrying amount at the beginning of the year;	$ 1,366,334	$ 1,069,428
Additions	758,803	778,231
Disposals	-	(8,319)
Depreciation	(530,481)	(473,006)
Carrying amount at the end of the year	$ 1,594,656	$ 1,366,334

	2011	2010
Automated banking machines		
Carrying amount at the beginning of the year;	$ 978,902	$ 398,657
Additions	77,737	848,869
Disposals	-	(186,114)
Depreciation	(108,685)	(82,510)
Carrying amount at the end of the year	$ 947,954	$ 978,902

	2011	2010
Construction in progress		
Carrying amount at the beginning of the year;	$ 20,306	$ 2,463,113
Additions	991,390	5,409,926
Transfer to service	(994,595)	(7,852,733)
Carrying amount at the end of the year	$ 17,101	$ 20,306

10. Property and equipment and intangible assets (continued):

	2011	2010
Intangible assets (computer software)		
Carrying amount at the beginning of the year;	$ 1,479,141	$ 1,315,061
Additions	723,357	164,080
Amortization	(55,063)	-
Carrying amount at the end of the year	$ 2,147,435	$ 1,479,141
Total carrying amount	$ 19,319,234	$ 18,503,419

11. Members' deposits:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-interest bearing deposits	$ 1,392,757	$ 1,917,500	$ 3,123,656
Deposits with variable interest rates:			
Chequing	201,046,984	184,071,988	167,531,643
Savings	116,530,819	104,250,634	90,356,667
Registered retirement plans	18,753,325	7,793,706	8,584,357
	336,331,128	296,116,328	266,472,667
Deposits with fixed interest rates:			
Term deposits	157,251,623	189,558,330	173,253,965
Registered retirement savings plans	135,180,009	121,571,553	120,152,906
Registered retirement income funds			
Accrued interest	4,135,206	3,472,855	3,878,373
	296,566,838	314,602,738	297,285,244
	$ 634,290,723	$ 612,636,566	$ 566,881,567

11. Members' deposits (continued):

The following summarizes the Credit Union's Members' deposits by the contractual repricing or maturity date, whichever is earlier:

	2011		2010	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	$ 335,909,575	0.29%	$ 296,116,328	0.30%
Within 1 year	156,143,562	2.17%	187,911,054	2.12%
Over 1 year	136,709,625	1.56%	123,218,829	2.63%
	628,762,762	1.03%	607,246,211	1.20%
Non-rate sensitive	5,527,961		5,390,355	
	$ 634,290,723		$ 612,636,566	

	January 1, 2010	
	Principal Balance	Average Yield
Floating	$ 266,472,667	0.21%
Within 1 year	113,959,274	2.88%
Over 1 year	179,447,597	2.01%
	559,879,538	1.33%
Non-rate sensitive	7,002,029	
	$ 566,881,567	

12. Short term borrowings with Central 1 Credit Union:

The Credit Union has authorized credit facilities available with Central 1 in the aggregate amount of $18.7 million. These credit facilities are secured by a general security agreement and an assignment of book debts. At the end of the year, $Nil (2010 - $Nil) was outstanding under this facility.

13. Liabilities qualifying as regulatory capital:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Equity	Liability	Equity	Liability	Equity	Liability
Membership shares	$ -	$ 1,284,967	$ -	$1,292,230	$ -	$1,285,179
Patronage shares	-	1,521,539	-	1,605,978	-	1,685,135
Investment shares	-	7,202,471	-	7,030,948	-	6,907,163
	$ -	$10,008,977	$ -	$9,929,156	$ -	$9,877,477

13. Liabilities qualifying as regulatory capital (continued):

Patronage or Investment shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32, Financial Instrument Presentation and IFRIC 2 Members' Shares in Cooperative Entities and Similar Instruments. If they are classified as equity, they are recognized at cost net of transaction costs. If they are recognized as liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Terms and Conditions

Membership Shares

Membership shares have a par value of $5 per share and members eighteen years of age and over are required to have a minimum of five shares. Members under the age of eighteen are required to have one share. Membership share balances can be withdrawn only upon termination of membership and approval of the directors. At December 31, 2011, there were 51,109 members of the Credit Union holding 256,993 membership shares (2010 – 47,204 members holding 258,446 shares, January 1, 2010 – 46,714 members holding 265,937 shares). Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 14), as is the payment of any dividends on these shares. Membership shares are available for redemption and are classified as a liability.

Patronage Shares

The Credit Union is authorized to issue an unlimited number of non-voting, non-participating, Class A non-cumulative, redeemable patronage shares. Class A non-cumulative redeemable patronage shares can only be withdrawn subject to any restrictions imposed by the Credit Unions and Caisses Populaires Act, 1994. Issued and outstanding shares as at December 31, 2011 were 1,521,539 (2010 – 1,605,978, January 1, 2010 – 1,685,135). Patronage shares are available for redemption and are classified as a liability.

Patronage share redemptions are at the discretion of the Directors to a maximum of 10% of the shares outstanding at the previous year end.

Investment Shares

Class B investment shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares, to a maximum of 10% of the shares outstanding at the previous year end. The Credit Union has the option to redeem these shares in whole or in part or on a pro-rata basis any time after five years from the date of issuance. Issued and outstanding shares as at December 31, 2011 were 7,202,471 (2010 - 7,030,948, January 1, 2010 – 6,907,163). Investment shares are non-voting, are available for redemption and are classified as a liability.

14. Capital management:

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are to implement a policy that:

- ensures that the quantity, quality and composition of capital needed that reflects the inherent risks of the Credit Union and to support the current and planned operations; and

- provides distributions of dividends and redemptions of capital instruments to members.

The Credit Union Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset.

The Act requires credit unions to maintain a capital ratio of 4.00% and a risk-weighted capital ratio of 8.00%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. The current minimum ratios per board policy are a capital ratio of 4.00% and a risk-weighted capital ratio of 8.00%. The Credit Union is in compliance with the Act as indicated by the table below:

	Regulatory Capital	Capital leverage minimum	Capital leverage actual	Risk weighted minimum	Risk weighted actual
December 31, 2011	$45,455,187	4.00%	6.64%	8.0%	14.34%
December 31, 2010	$44,517,102	4.00%	6.72%	8.0%	16.07%
January 1, 2010	$41,672,873	4.00%	6.67%	8.0%	13.46%

The Credit Union manages its Tier 1 and Tier 2 capital in accordance with internal policies and regulatory requirements. Tier 1 capital is the highest quality and consists of retained earnings, membership shares and the portion of the value of Class A and B investment and patronage shares that are not redeemable within 12 months. Tier 2 capital is comprised of the value of Class A and B investment and patronage shares ineligible as Tier 1 capital and the eligible portion of the allowance for impaired loans.

14. Capital management (continued):

The amount of composition of Tier 1 and Tier 2 capital was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Tier 1 Capital			
Retained earnings	$ 27,102,724	$ 26,124,461	$ 23,241,911
Contributed surplus	8,243,485	8,243,485	8,243,485
Membership shares	1,284,967	1,292,230	1,285,179
Class A non-cumulative redeemable patronage shares (90%)	1,445,381	1,516,622	1,516,621
Class B non-cumulative, non-voting, non-participating investments shares (90%)	6,499,376	6,559,990	6,216,447
Tier 2 Capital			
Class A non-cumulative redeemable patronage shares (10%)	76,159	89,357	168,514
Class B non-cumulative, non-voting, ` non-participating investment shares (10%)	703,095	470,957	690,716
Collective allowance for impaired loans	100,000	220,000	310,000
Total regulatory capital	$ 45,455,187	$ 44,517,102	$ 41,672,873

15. Commitments and contingencies:

(a) As at December 31, 2011, commitments for authorized but not issued loans to members amounted to approximately $7,231,629 (2010 - $6,609,720, January 1, 2010 - $7,228,487).

(b) As at December 31, 2011, commitments for unused lines and letters of credit amounted to approximately $80,417,569 and $1,825,911, respectively (2010 - $97,660,680 and $1,815,004 respectively) (January 1, 2010 - $92,452,093 and $2,249,935 respectively).

(c) The Credit Union has commitments for the rental of branch premises under long-term non-cancelable operating leases and other rental agreements which expire on various dates to 2020. Future annual minimum lease payments are approximately as follows:

2012	$ 401,557
2013	355,505
2014	328,472
2015	304,305
2016	245,300
Thereafter	1,163,947

15. Commitments and contingencies (continued):

(d) The Credit Union is involved in certain legal matters and litigation from time to time, the outcomes of which are not presently determinable. The effects, if any, from such contingencies will be accounted for in the periods in which the matters are probable.

16. Income taxes:

The components of income tax expense (benefit) are as follows

	2011	2010
Current income tax expense	$ 456,215	$ 446,531
Deferred income tax expense	(44,687)	466,871
Total income tax expense	$ 411,528	$ 913,402

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rate of 28.25% (2010 – 31.0%) to income before income taxes. The reasons for the difference are as follows:

	2011	2010
Income before income tax	$ 2,282,081	$ 3,289,453
Statutory tax rate	28.25%	31.00%
Computed tax expense	644,689	1,019,730
Increase (decrease) resulting from:		
Lower rate on preferred rate amount	(330,136)	(320,130)
Non-deductible expense	23,915	16,666
Change in future tax rate	23,305	12,015
Other	49,755	185,121
Total income tax expense	$ 411,528	$ 913,402

16. Income taxes (continued):

The movements of deferred tax assets and liabilities are presented below:

		Year ended December 31, 2011		
	Opening Balance	Recognized in OCI	Recognized in Profit or loss	Closing Balance
Deferred tax assets				
Investments	$ (47,608)	$ -	$ 67,937	$ 20,329
Employee retirement benefits	251,260	382,410	(22,295)	611,375
Property and equipment	78,000	-	13,330	91,330
Intangible assets	128,922	-	(102,144)	26,778
Allowance for impaired loans	109,053	-	196,822	305,875
Total deferred tax assets	$ 519,627	$ 382,410	$ 153,650	$ 1,055,687

		Year ended December 31, 2011		
	Opening Balance	Recognized in OCI	Recognized in Profit or loss	Closing Balance
Deferred tax liabilities:				
Mortgage securitizations	$ 25,000	$ (42,745)	$ 108,963	$ 91,218
Total deferred tax liabilities	$ 25,000	$ (42,745)	$ 108,963	$ 91,218
Total movement taken to income tax expense	$ 494,627	$ 425,155	$ 44,687	$ 964,469

16. Income taxes (continued):

		Year ended December 31, 2010		
	Opening Balance	Recognized in OCI	Recognized in Profit or loss	Closing Balance
Deferred tax assets:				
Investments	$ (21,465)	$ -	$ (26,143)	$ (47,608)
Employee retirement benefits	436,940	(189,900)	4,220	251,260
Property and equipment	81,000	-	(3,000)	78,000
Intangible assets	130,922	-	(2,000)	128,922
Allowance for impaired loans	152,001	-	(42,948)	109,053
Accrued liabilities	380,000	-	(380,000)	-
Total deferred tax assets	$ 1,159,398	$ (189,900)	$ (449,871)	$ 519,627

		Year ended December 31, 2010		
	Opening Balance	Recognized in OCI	Recognized in Profit or loss	Closing Balance
Deferred tax liabilities:				
Mortgage securitizations	$ 8,000	$ -	$ 17,000	$ 25,000
Total deferred tax liabilities	$ 8,000	$ -	$ 17,000	$ 25,000

Total movement taken to income tax expense	$ 1,151,398	$ (189,900)	$ (466,871)	$ 494,627

The ultimate realization of future tax assets is dependent upon generation of taxable income during future periods in which the unused tax losses are available.

The Credit Union has net capital loss carryforwards of $130,300 with no expiry date which are available to reduce future taxable income. The tax benefit of the losses will be recognized in the year that it is determined that it is probable that they will be realized.

17. Employee future benefits:

The Credit Union has a defined benefit pension plan for certain management employees. All other employees of the Credit Union may elect to participate in the Canadian Credit Union Employees Pension Plan, a defined contribution plan, as provided by CUMIS Life Insurance Company.

The total expense for the pension plans are as follows:

	2011	2010
Defined benefit pension plan		
Net benefit plan expense	$ 533,800	$ 582,200
Defined contribution pension plan	229,884	239,390
	$ 763,684	$ 821,590

Information about the Credit Union's defined benefit plan is as follows:

	2011	2010
Accrued benefit obligation:		
Balance, beginning of year	$ 7,620,700	$ 6,893,400
Current service cost	823,500	779,600
Interest cost	419,300	419,700
Benefits paid	(118,500)	(85,700)
Actuarial (gains) losses	367,800	(386,300)
	$ 9,112,800	$ 7,620,700
Plan assets:		
Fair value, beginning of year	$ 6,710,200	$ 5,378,300
Expected return on plan assets	503,200	428,000
Employer contributions	469,900	553,700
Employees' contributions	205,800	189,100
Benefits paid	(118,500)	(85,700)
Actuarial gains (losses)	(906,900)	246,800
Fair value, end of year	$ 6,863,700	$ 6,710,200

17. Employee future benefits (continued):

Experience adjustments incurred were as follows:

	Defined Benefit Pensions 2011	2010
Accrued benefit obligation	$ (367,800)	$ 386,300
Plan assets	(906,900)	246,800
Total for the year	$(1,274,700)	$ 633,100

The accrued benefit liability is included in accounts payable and accrued liabilities.

The following table provides the amount recognized in the consolidated statement of financial position:

		Defined Benefit Pensions	
	December 31, 2011	December 31, 2010	January 1, 2010
Funded status (deficit) being accrued benefit liability included in other liabilities	$ (2,249,100)	$ (910,500)	$ (1,515,100)
Net amount recognized	$ (2,249,100)	$ (910,500)	$ (1,515,100)

The significant actuarial assumptions adopted in measuring the Credit Union's accrued benefit obligations are as follows:

		Defined Benefit Pensions	
	December 31, 2011	December 31, 2010	January 1, 2010
Discount rate	4.75%	5.00%	5.50%
Rate of compensation increase	4.50%	4.50%	4.50%
Expected long-term rate of return on plan assets	7.20%	7.50%	7.50%
Rate of maximum pension increase	3.50%	3.50%	3.50%

17. Employee future benefits (continued):

The expected rate of return on plan assets is based on the risks and associated returns expected of the underlying plan assets. Plan assets are held in balanced funds which include equities and fixed income investments.

The Credit Union's net benefit plan expense is as follows:

	Pension Benefit Plan 2011	2010
Current service cost, net of employees' contributions	$ 617,700	$ 590,500
Interest cost	419,300	419,700
Expected return on plan assets	(503,200)	(428,000)
Net benefit plan expense	$ 533,800	$ 582,200

These net benefit plan expenses are included in salaries and employee benefits on the consolidated statement of income. Aggregate contributions relating to defined benefit pensions and other defined benefit pensions and other defined benefit plans expected for the year ended December 31, 2012 is $734,400.

The defined benefit plan assets comprise:

	December 31, 2011	December 31, 2010	January 1, 2010
Philips Hargar North balanced fund	$ 3,383,437	$ 3,226,847	$ 2,652,013
Howson Tattersall Saxon balanced fund	3,476,226	3,480,683	2,724,944
CUMIS retirement security fund	4,054	2,717	1,332
	$ 6,863,717	$ 6,710,247	$ 5,378,289

The actual return on plan assets for the year-ended December 31, 2011 was $503,200 (2010 - $428,000).

18. Fair value of financial instruments:

Estimated fair value of on-balance sheet 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. 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 the market rates that have occurred since their origination. Due to the use of judgement and estimates, the fair value amounts should not be interpreted as being necessarily realizable in immediate settlements of the instruments.

The estimated fair value of the Credit Union's financial instruments is set out as follows:

(000's of $'s)			2011	2010
	Fair Value	Book Value	Fair Value Over (Under) Book Value	Fair Value Over (Under) Book Value
Financial assets (in 000's)				
Cash resources	25,254	25,254	-	-
Loans to members	572,845	561,750	11,095	8,505
Investments	76,590	76,508	82	184
Financial liabilities (in 000's)				
Members' deposits	638,963	634,291	4,672	2,220
Payables and accruals	5,131	5,131	-	-
Loans payable	-	-	-	-
Liabilities qualifying for regulatory capital	10,009	10,009	-	-

The following methods and assumptions were used to estimate the fair values.

Investments are valued using quoted market value prices when available. Book values are used when no quoted market prices are available and fair value cannot be determined reliably.

The estimated fair value of fixed rate member loans and fixed rate member deposits are determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

19. Derivative financial instruments:

a) Notional amounts of derivatives:

The notional amounts of derivatives shown in the tables below do not represent amounts exchanged by the parties and, thus, are not a measure of the exposure of the Credit Union through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates.

The Credit Union is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of interest rate contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

b) Interest rate risk management:

The Credit Union has entered into interest rate contracts to manage interest rate risk and variable rates to alter interest rate exposure. Interest rate swaps allow the Credit Union to finance transactions and effectively swap them into fixed rate terms. Under interest rate swaps, the Credit Union agrees with the counterparty to exchange, at the maturity date, the difference between fixed-rate and floating-rate interest amounts calculated by reference to the notional amount

The following table indicates the swaps and options in place at December 31, 2011 and the interest rate.

Date Agreement Entered	Notional Principal	Fixed Rate	Start Date	Expiry Date	Fair Value
Interest Rate Swaps					
Dec 22, 2009	$ 3,195,360	1.02%	Jan 15, 2010	Feb 15 2013	$ 1,756
Dec 22, 2009	7,175,680	2.51%	Jan 15, 2010	Feb 15, 2014	(187,046)
Apr 12, 2011	25,000,000	2.32%	Jan 16, 2012	Jan 15, 2013	281,278
					95,988
Interest Rate Options					
Oct 30, 2009	15,000,000	2.00%	Jan 17, 2011	Jan 16, 2012	-
Oct 30, 2009	15,000,000	2.63%	Jan 17, 2011	Jan 16, 2012	-
Nov 4, 2009	15,000,000	2.00%	Jan 17, 2011	Jan 16, 2012	-
Nov 4,2009	15,000,000	2.87%	Jan 17, 2011	Jan 16, 2012	-

c) Foreign exchange forward contracts:

As part of its ongoing program of managing foreign currency exposure, the Credit Union enters into forward rate agreements to purchase US dollars. These agreements function as a hedge against the Credit Union's net US dollar denominated liability position. The net fair value of these contracts as at December 31, 2011 was $ (23,140) (2010 – $ nil).

19. Derivative financial instruments (continued):

d) Equity swap agreements:

The fair value of the index linked swap contracts at year end is approximately $227,763 (2010 - $434,397).

20. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons have authority and responsibility for planning, directing and controlling the activities of the Credit Union.

		2011		2010
Compensation				
Salaries and other short-term employee benefits	$	875,376	$	807,213
Total pension and other post-employment benefits		142,903		121,485
	$	1,018,279	$	928,698

		2011		2010
Loans to key management personnel				
Aggregate value of loans advanced	$	553,540	$	789,780
Interest received on loans advanced		17,633		29,056
Aggregate value of unadvanced loans		104,264		157,459

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit.

20. Related party transactions (continued):

		2011		2010
Deposits from key management personnel				
Aggregate value of term and savings deposits	$	475,422	$	323,384
Total interest paid on term and saving deposits		2,104		5,779
	$	477,526	$	329,163

The Credit Union’s policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

The total remuneration paid to the directors and committee members amounted to $78,125 (2010 - $65,755). The aggregate value of loans to related parties is as follows:

		2011		2010
Directors and officers	$	576,129	$	541,467
Staff		12,003,713		15,741,031
	$	12,579,842	$	16,282,498

All loans issued to related parties conform to the Credit Union’s policies for terms, interest rates, limits and credit.

In accordance with the required disclosure under Ontario Regulation 237/09, section 28, of the Credit Unions and Caisses Popularies Act 1994, Mr. Albert W. Suraci, President and Chief Executive Officer was paid a salary of $237,570 and received benefits amounting to $38,100. Mr. Richard Adam, Senior Vice-President Finance and Administration was paid a salary of $153,674 and received benefits amounting to $29,109. Mr. Tony Dunham Vice President Sales and Service was paid a salary of $135,025 and received benefits amounting to $25,638. No other officer or employee of the Credit Union had remuneration greater than $150,000 during the year.

21. Financial risk management:

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union’s risk management framework. The Board has established the Audit Committee and charged them with the responsibility for, among other things, the development and monitoring of risk management policies. An Asset Liability Committee (ALCO) has been established consisting of senior management and an external consultant. This committee meets on a monthly basis to review the results of income simulation models and duration analysis and reports regularly to the Board on its activities.

21. Financial risk management (continued):

a) Liquidity risk:

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund our balance sheet under both normal and stressed market environments. The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of polices and limits approved by the Board. These policies and limits ensure, among other things, that the Credit Union is in full adherence to the regulatory requirements prescribed in the Credit Union Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

The Credit Union believes that liquidity risk management is a necessary part of prudent financial administration, and is committed to engaging in proper liquidity risk management practices to comply with regulatory requirements and to guarantee the orderly funding of member needs and obligations. The Credit Union will ensure responsible liquidity risk management at all times to provide a cushion for unforeseen liquidity needs.

The key elements of the Credit Union's liquidity risk management framework establishes an overall framework of liquidity risk management which ensures that the Credit Union faces limited exposure to all material risks as well as addressing limits on the sources, quality and amount of liquid assets to meet normal operational, contingency funding for significant deposit withdrawals, and regulatory requirements.

The Credit Union targets to maintain operating liquidity within the range of 10% to 14%. The low end of the range has been established in order to maintain a comfortable cushion beyond the statutory minimum requirements in order to meet cash needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2011 the Credit Union's liquidity ratio was 12.20% (2010 – 16.46%).

Assets held for liquidity purposes consist of cash resources designated as held for trading in the amount of $25,253,794 and liquidity reserve deposits and term deposits held by Central 1 designated as loans and receivables totaling $51,651,184.

The table below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in note 15.

21. Financial risk management (continued):

a) Liquidity risk (continued):

December 31, 2011

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets					
Financial assets:					
Cash and cash equivalents	25,254	-	-	-	25,254
Investments	31,792	34,084	10,632	-	76,508
Loans to members	172,565	90,313	298,872	-	561,750
	229,611	124,397	309,504	-	663,512
Non-financial assets:					
Other assets	21,384	-	-	-	21,384
Total assets	250,995	124,397	309,504	-	684,896

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Liabilities and members' equity					
Members' deposits	390,951	106,630	136,710	-	634,291
Other liabilities	5,131	-	-	-	5,131
Share capital	10,009	-	-	-	10,009
Members' equity	35,465	-	-	-	35,465
Total liabilities and members' equity	441,556	106,630	136,710	-	684,896

21. Financial risk management (continued):

a) Liquidity risk (continued):

December 31, 2010

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets					
Financial assets:					
Cash and cash equivalents	30,063	-	-	-	30,063
Investments	33,772	29,404	15,869	-	79,045
Loans to members	168,479	40,079	324,558	-	533,116
	232,314	69,483	340,427	-	642,224
Non-financial assets:					
Other assets	20,003	-	-	-	20,003
Total assets	252,317	69,483	340,427	-	662,227

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Liabilities and members' equity					
Members' deposits	365,165	124,253	123,219	-	612,637
Other liabilities	5,074	-	-	-	5,074
Share capital	9,929	-	-	-	9,929
Members' equity	34,587	-	-	-	34,587
Total liabilities and members' equity	414,755	124,253	123,219	-	662,227

21. Financial risk management (continued):

a) Liquidity risk (continued):

January 1, 2010

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets					
Financial assets:					
Cash resources	25,760	-	-	-	25,760
Investments	17,204	13,114	22,740	-	53,058
Loans	196,816	31,318	301,903	-	530,037
	239,780	44,432	324,643	-	608,855
Non-financial assets:					
Other assets	15,847	-	-	-	15,847
Total assets	255,627	44,432	324,643	-	624,702

(in $000's)	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Liabilities and members' equity					
Deposits	313,961	73,473	179,448	-	566,882
Other liabilities	6,373	10,000	-	-	16,373
Share capital	9,878	-	-	-	9,878
Members' equity	31,569	-	-	-	31,569
Total liabilities and members' equity	361,781	83,473	179,448	-	624,702

21. Financial risk management (continued):

a) Liquidity risk (continued):

It is estimated that immediate and sustained parallel increase in interest rates of 1% across all maturities and currencies would increase net interest income by approximately $472,000 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately $412,000 over the next twelve months using the following assumptions:

(i) accrued interest receivable and payable as at December 31, 2011 are excluded from the calculation;
(ii) no hedging or interest rate exposures are made;
(iii) instruments reprice evenly within their respective time bands, and;
(iv) existing credit commitments will not be drawn upon.

b) Credit risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to its credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

- Ensuring that credit quality is not compromised for growth;
- Diversifying credit risks in transactions, relationships and portfolios;
- Using our credit risk weighting and scoring systems, policies and tools;
- Pricing appropriately for the credit risk taken;
- Mitigating credit risk through preventive and detective controls;
- Transferring credit risk to third parties where appropriate through approved credit; and, risk mitigation techniques including insurance coverage

21. Financial risk management (continued):

c) Interest rate risk:

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with our members, primarily deposit and lending activities. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is re-priced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board.

At the reporting date the interest rate profile of the Credit Union's interest-bearing financial instruments was:

	Carrying amount 2011	2010
Fixed rate instruments		
Financial assets	$ 488,861,978	$ 446,301,110
Financial liabilities	292,853,187	311,129,883
	$ 196,008,791	$ 135,171,227
Variable rate instruments		
Financial assets	$ 141,779,449	$ 160,226,724
Financial liabilities	335,909,575	296,116,328
	$ (194,130,126)	$ (135,889,604)

Fair value sensitivity analysis for fixed rate instruments

The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Credit Union does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model; therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by $134,576 (2010 - $285,568).

21. Financial risk management (continued):

d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, equity rates, foreign exchange rates and credit spreads, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Credit Union uses income simulation modeling to measure exposure to changes in interest rates over short term periods. Earnings at risk, is calculated by forecasting the net interest margin for the next 12 months using the most likely assumptions. These assumptions include management's estimates of future growth rates, and future interest rates and term preferences of members. Future growth rates are initially based on the board approved budget. Future interest rates are based on the most current interest rate path. These earnings at risk are then shocked by a change in rates sustained for a 12 month period. The resulting change in the forecast as a result of the rate shock then determines the earnings at risk. Maximum limits are established under these scenarios and are approved by the Board of Directors.

Long-term interest rate risk is measured using duration analysis. The duration of an asset, is an expression of its term to maturity taking into account the yield of the asset.

Maximum limits are established for both earnings at risk and duration of capital and are approved by the Board of Directors. The current maximum limit and projected change is indicated below:

	Maximum limit	Projected change
0.50% shock down	$ 750,000	$ (241,000)
1.0% shock up	750,000	459,000

e) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The Credit Union's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices.

21. Financial risk management (continued):

e) Foreign currency risk

Prudent limits will be placed on unhedged liquid assets denominated in a foreign currency. Limits are established in relation to the size of the overall liquidity portfolio and are to apply at the time of purchase.

At December 31, 2011, the Credit Union was in compliance with Board policy on financial risk management.

22. Explanation of transition to IFRS:

As stated in note 2(a), these consolidated financial statements represent the first annual consolidated financial statements of the Credit Union prepared in accordance with IFRS. The Credit Union adopted IFRS in accordance with IFRS 1 “First-time adoption of International Financial Reporting Standards.” The first date at which IFRS was applied was January 1, 2010 (“Transition Date”).

The accounting policies in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, and the preparation of an opening IFRS statement of financial position at the transition date.

In preparing its opening IFRS consolidated statement of financial position, comparative information for consolidated financial statements for the year ended December 31, 2011, the Credit Union has adjusted amounts reported previously in consolidated financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Credit Union’s consolidated statement of financial position, statement of income, statement of comprehensive income and statement of member’s equity is set out in the following tables and the notes that accompany the tables.

a) Initial adoption elective exemptions and mandatory exceptions

Upon conversion to IFRS, the Credit Union was required to retrospectively restate the accounting for transactions under Canadian GAAP that occurred prior to the transition date to be in accordance with IFRS. IFRS 1 governs the adoption of IFRS and allows certain exemptions and requires mandatory exceptions to retrospective restatement. Upon conversion to IFRS the Credit Union applied the following IFRS 1 elective exemption as at the transition date.

i) Business combinations – The Credit Union elected to apply IFRS 3, “Business Combinations”, prospectively from the transition date rather than retrospectively. As a result, no restatement of the Credit Union’s business combinations prior to the transition date was required.

22. Explanation of transition to IFRS (continued):

ii) Designation as FVTPL – On the transition date, the Credit Union elected to designate its investment in ABCP 2008 Limited Partnership as FVTPL. Under Canadian GAAP, the investment was classified as an AFS financial asset. As a result, changes in fair value of the instrument under IFRS are presented in the consolidated statement of income.

iii) Employee benefits – On the transition date, the Credit Union elected to not retrospectively apply the corridor approach in accounting for actuarial gains and losses. As a result the Credit Union recognized all unamortized actuarial losses that existed at the transition date in opening retained earnings for all employee benefit plans.

vi) Mortgage securitizations – first-time adopter shall apply the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the transition date. An entity may apply the derecognition requirements in IAS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions. The Credit Union has elected to apply the election as of the transition date. As a result, the Credit Union was not required to restate their past mortgage securitization transactions.

v) Employee benefits (disclosure) – On the transition date, the Credit Union elected to not retrospectively apply certain disclosure requirements. As a result, the Credit Union was not required to disclose an additional three years of historical information relating to defined benefit obligations and the fair value of plan assets.

The Credit Union was also required to apply the following mandatory exceptions to retrospective restatement as a result of the requirements of IFRS 1:

1. Estimates – As required by IFRS 1, hindsight was not used to create or revise estimates made under Canadian GAAP prior to the transition date.

b) Reconciliations of Canadian GAAP and IFRS

IFRS 1 requires the Credit Union to present reconciliations of consolidated member’s equity, statement of income and comprehensive income for the comparative period (2011) and the opening consolidated statement of financial position. The following represents the required reconciliations.

22. Explanation of transition to IFRS (continued):

Reconciliation of Member's Equity

	Notes	December 31, 2010	January 1, 2010
Member's equity under Canadian GAAP		33,925,349	31,456,071
Differences increasing (decreasing) reported member's equity:			
ABCP 2008 Limited Partnership investment	i	958,692	421,549
Loan loss provisions	ii	803,158	1,242,663
Employee benefits	iii	(484,230)	(1,169,800)
Intangible assets	iv	(333,064)	(333,064)
Income taxes	v	(283,373)	(48,602)
Member's equity under IFRS		$ 34,586,532	$ 31,568,817

Reconciliation of Statement of Income

	Notes	December 31, 2010
Net income under Canadian GAAP		2,334,113
Differences increasing (decreasing) reported Net income:		
ABCP 2008 Limited Partnership investment	i	537,144
Loan loss provisions	ii	(439,506)
Employee benefits	iii	52,500
Income taxes	v	(44,871)
Net income for the year under IFRS		$ 2,439,380

Reconciliation of Comprehensive Income

	Notes	December 31, 2010
Comprehensive income under Canadian GAAP		$ 2,469,278
Differences increasing reported comprehensive income:		
Defined benefit plan actuarial gains	iii	443,170
Differences in net income for the year		105,267
Comprehensive income under IFRS		$ 3,017,715

22. Explanation of transition to IFRS (continued):

i) ABCP 2008 Limited Partnership investment – As described previously, on the transition date, the Credit Union applied the IFRS 1 exemption to designate its investment in ABCP 2008 Limited Partnership as FVTPL. Under Canadian GAAP, the investment was classified as an AFS financial asset and held at cost. As a result, an adjustment was recorded on the transition date to member's equity for the difference between the cost and fair value of the investment. Changes in fair value of the instrument are now presented in the consolidated statement of income.

The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income

	For the year ended December 31, 2010
Increase in investment income	$ 537,144
Adjustment before income tax	$ 537,144

Consolidated statement of financial position

	December 31, 2010	January 1, 2010
Increase in investments	$ 958,692	$ 421,549
Related tax effect	(287,608)	(126,465)
Increase in retained earnings	$ 671,084	$ 295,084

ii) Loan Loss Provision – As a result of IFRS requiring a more robust loan loss provision model than Canadian GAAP, at the transition date member's equity was adjusted for the difference between the provisions required under Canadian GAAP and IFRS.

The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income

	For the year ended December 31, 2010
Decrease in net impairment loss on loans	$ (439,506)
Adjustment before income tax	$ (439,506)

Consolidated statement of financial position

	December 31, 2010	January 1, 2010
Increase in loans to members	$ 803,158	$ 1,242,663
Related tax effect	(240,947)	(372,799)
Increase in retained earnings	$ 562,211	$ 869,864

22. Explanation of transition to IFRS (continued):

iii) Employee Benefits – Adjustments relating to employee benefits consist of three separate differences between Canadian GAAP and IFRS:

- As described previously, the Credit Union applied the IFRS 1 exemption to record unamortized actuarial losses. Prospectively, the Credit Union accounts for actuarial gains and losses directly through other comprehensive income.

- Under Canadian GAAP, deferred past service costs on pension obligations are deferred over the expected average remaining service life of employees. Under IFRS, these costs are recognized over the vesting period. On the transition date, member's equity was adjusted for the amounts vested and the unvested amounts are recognized over the average period until the benefits become vested.

- Under Canadian GAAP, as a result of adopting CICA 3461, a deferred transitional gain was outstanding as of the transition date. As the adjustment did not meet the definition of a liability under IFRS, on the transition date the amount was adjusted to member's equity.

The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income

	For the year ended December 31, 2010
Decrease in salaries, wages and benefits expense	$ 52,500
Increase in other comprehensive income	633,070
Adjustment before income tax	$ 685,570

Consolidated statement of financial position

	December 31, 2010	January 1, 2010
Increase in accounts payable and accrued liabilities	$ 484,230	$ 1,169,800
Related tax effect	(145,260)	(350,940)
Decrease in retained earnings	$ 338,970	$ 818,860

22. Explanation of transition to IFRS (continued):

iv) Intangible Assets – Adjustments related to intangible assets consisted of a reclassification of computer software from other assets to intangible assets and the write-off of intangible assets recorded under Canadian GAAP that did not meet the definition of intangible assets under IFRS.

The impact arising from the change is summarized as follows:

Consolidated statement of financial position

	December 31, 2010	January 1, 2010
Increase in intangible assets	$ 1,479,141	$ 1,315,061
Decrease in other assets	(1,812,205)	(1,648,125)
Related tax effect	99,922	99,922
Decrease in retained earnings	$ (233,142)	$ (233,142)

v) Income Taxes – Consists of the deferred income tax effect of the above reconciling differences between Canadian GAAP and IFRS.

The above changes increased (decreased) the deferred tax asset as follows based on a tax rate of 30 percent:

	Notes	December 31, 2010	January 1, 2010
ABCP 2008 Limited Partnership investment	i	$ (287,608)	$ (126,465)
Loan loss provision	ii	(240,947)	(372,999)
Employee benefits	iii	145,260	350,940
Intangible assets	iv	99,922	99,922
		$ (283,373)	$ (48,602)

Material adjustments to the statement of cash flows for 2010

Consistent with the Credit Union's accounting policy choice under IAS 7, *Statement of Cash Flows*, interest paid and income taxes paid have moved into the body of the *Statement of Cash Flows*, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous Canadian GAAP.