getting you there

ANNUAL REPORT 2011

CREDIT UNION
NEWFOUNDLAND AND LABRADOR

our vision

Newfoundland and Labrador Credit Union will be the superior provider of the ideal financial service experience.

our mission

Our market will be all who share the ideals of integrity and excellence regardless of demographics or geography.

Our focus will be on gaining the complete trust and confidence of our owners, including our employees, in everything we do.

We are committed to every owner achieving personal financial success as they define it by:

- Listening
- Providing complete and accurate information
- Providing sound advice and personalized solutions
- Providing access to financial and related services as owners' needs dictate, when owners' needs dictate, where owners' needs dictate

getting you there

Doors are the literal threshold over which we pass all the time: inside to outside, outside to inside, one room to another. Life is also a series of thresholds, each one as exciting (and sometimes, scary) as the last: from child to adult, from renter to homeowner, from employee to business owner, and so on. At NLCU, we're pleased to be able to assist you over the threshold and through the doorway to wherever you're going next in life. We'll hold that door for you; go ahead, walk on through.

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president's report

Report of the Board of Directors to the 54th Annual General Meeting of Newfoundland and Labrador Credit Union (NLCU)

It is again my privilege to report to you, our owners, on the progress and remarkable achievements of your credit union during 2011. The past year was an exciting one for the Board, highlighted by the development of a new Five-year Strategic Plan. The activities involved in this process enabled us to peer through the portals of the future and examine new opportunities to provide greater value to you. The prospects unveiled during our strategic planning ignited the excitement and passion that inspires continued growth and achievement. The achievements of 2011 were numerous and gratifying and include:

> "Our assets per owner is one of the highest in the country and is a source of great satisfaction and pride."

NLCU RECEIVES LIFE INSURANCE BROKER LICENSE

As of December 6, 2011, NLCU has become the first financial institution in Canada to offer Life Insurance (including accident and sickness) as well as Life and Death Benefits from the floor of the institution through CUMIS Life Insurance Company.

Recognitions

For the sixth time in the past ten years we were named by *Progress Magazine* as one of the Best Places to Work in Atlantic Canada.

For the 14th consecutive year we were listed in the Top 101 Companies in Atlantic Canada by *Progress Magazine*, ranking at #65. They also ranked us as:

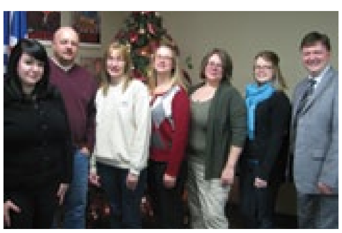
- #8 in the Top 10 Companies in Atlantic Canada for Internal Perspectives in terms of a positive corporate culture and the continuous building of that culture;
- #3 in the Top 10 Companies in Atlantic Canada for Customer Perspectives – the highest in Newfoundland and Labrador;
- #7 in the Top 10 Most Balanced Companies in Atlantic Canada.

We also received an Honourable Mention from *Atlantic Business Magazine* for the Corporate Social Responsibility Award in the Human Resources category.

Michael W. Boland
President and Board Chairman

OFFICIAL CORPORATE SPONSOR FOR THE FRESH FISH AWARD FOR EMERGING WRITERS 2011

The Newfoundland and Labrador Credit Union Fresh Fish Award is one of the most generous cash prizes given in Canada to an emerging writer who has not yet been published. The winner receives a cash prize plus the services of a professional editor and a miniature sculpture by sculptor Jim Maunder in the style of "Man nailed to a fish."



NLCU PARTNERS WITH THE CANADIAN RED CROSS

NLCU signed a partnership agreement with the Canadian Red Cross for the "Ready When The Time Comes" program (RWTC).

The RWTC program trains employees of corporate partners to volunteer in the event of a major local disaster. NLCU has a volunteer team of nine in the greater St. John's area, and is setting up a second volunteer team in Central Newfoundland.

We are proud of these recognitions from the business community. They provide an independent recognition and evaluation of how we are ranked in the business community.

Charitable Foundation

Your credit union is committed to giving back to the communities in which we operate. The entire complement of our credit union's personnel fundraised for our NLCU Charitable Foundation Corporation (NLCU CFC), including participation in our annual walk-a-thon and golf tournament. In 2011 we raised $26,000 at the walk-a-thon, which enabled the Foundation to meet its three-year commitment of $30,000 to its charity of choice—the "Give from the Heart" campaign of the Health Care Foundation. We raised $50,000 during the golf tournament and donated $6,000 to the charity of choice, the Janeway's Eye Clinic.

Overall, the Foundation raised more than $93,800 in 2011, enabling it to donate to 90 charities throughout the Province. On behalf of the Credit Union I offer our sincere congratulations and thanks to all who contributed to the success of the Foundation's work.

Government Relations

Our credit union continues to maintain excellent relations with Government and the Credit Union Deposit Guarantee Corporation. This enables us to have valuable input into legislative change as it occurs and provides us with regulatory supervision through regular examinations, helping us ensure a measure of compliance and assurance of operating within sound business practices.

We also actively maintain positive communications with the provincial minister responsible for credit unions. We acknowledge the recent appointment of the Honourable Paul Davis as Minister of Service NL (formerly the Department of Government Services). We offer our congratulations on his appointment and look forward to forging a good working relationship with Minister Davis and his department.

Credit Union System

As the largest credit union in Atlantic Canada, we acknowledge the value of belonging to a strong network of credit unions nationally and worldwide. We continue our relationship as a member of Canada's largest central—Central 1 in British Columbia. During 2011 we participated in the regular meetings of Central 1 and of Credit Union Central of Canada.

Best Practices Tour

As a prelude to our Strategic Planning Session we initiated a Best Practices Tour of five credit unions across Canada. Our CEO, COO, and I were able to meet with leadership teams in each of these credit unions, which are multiples of our size. These knowledge-sharing sessions provided valuable insights for future growth on new services, infrastructure needs, human resources needs, etc. They allowed us to compare best practices as found in different regions of the country and to share innovative successes.

> "Although we are the largest credit union in Atlantic Canada, we have enormous potential for new and sustained growth."

The high level of co-operation experienced in this tour underscores the value of networking with the credit union system and the sharing of expertise in many segments of our operation.

New Strategic Plan

At its September meeting, our Board met to renew its Strategic Plan. This year we engaged Mr. Jim Thomas as facilitator for our strategic planning session and hired Dr. Jim Barnes from BMAI Strategy as a consultant on consumer loyalty.

Mr. Thomas led our strategic planning group, consisting of the Board of Directors and Senior Management, through a three-day process of building a Strategic Plan for the next five years. During that session, Dr. Barnes presented the group with insights on the "value proposition" for owners of the Credit Union. Overall, the strategic planning exercise illuminated the level of consistency in executing our vision and mission that was shared by the Board and the management team.

Dr. Barnes was engaged to lead an Owner Insight Strategy project for NLCU. Last fall, he conducted a series of focus groups with owners and non-owners to ascertain what constitutes value to current and

NLCU OPENS NEW BRANCH IN CHURCHILL FALLS

On October 3, 2011, NLCU opened its newest branch in the Town Center of Churchill Falls. As the largest credit union in Atlantic Canada, this marks NLCU's 13th branch province-wide.

potential owners—and what constitutes owner loyalty. The next stage of this project includes owner surveys, to be completed by Spring 2012, that will help provide the ways and means of achieving the growth anticipated in our plan for the years to come. We hope the end product will provide an ever-increasing value return to owners and the variety of products and services that best helps you meet your lifelong financial service needs.

In-branch Insurance Service

Our credit union has reached another first. We are the first financial institution in Canada to be able to offer, in branch, living and death benefits. Thanks to co-operative dialogue with Government and very progressive legislation, Newfoundland and Labrador credit unions are able to acquire the appropriate licence to offer select insurance services in branch. We have acquired our licence and are now offering this service. Congratulations to all who have made this achievement possible.

Board Committees

The Board's Executive, Human Resources, Governance, Audit and Scholarship Committees performed their regularly scheduled meetings effectively in 2011. Governance Committee completed its annual review of all policies in 2011 and presented recommended changes to the Board for approval. Audit Committee met regularly with internal and external auditors, reported regularly to the Board and will report to you at our Annual General Meeting. The Scholarship Committee met its obligation and reviewed candidates' submissions for our annual scholarships. The following scholarship awards were made:

- Brian F. McDonald Scholarship awarded to Adam Thompson of O'Donel High School in Mount Pearl. Adam is the son of Dana Thompson, Assistant Branch Manager, Owner Service, St. John's;
- Outstanding School and Community Involvement Scholarship awarded to Emily Moores of Corner Brook Regional High School in Corner Brook;
- Outstanding School and Community Involvement Scholarship in Memory of Owen Grimes awarded to Thomas Abbass of Mealy Mountain Collegiate in Happy Valley-Goose Bay.

On your behalf, may I say sincere thanks to all who served on committees and enabled the Board to carry out its work.

TOP 101 COMPANIES IN ATLANTIC CANADA

On September 28, 2011, NLCU was named as one of the Top 101 Companies in Atlantic Canada by *Progress Magazine*. NLCU was one of nine companies in the province to be included in the list. In addition, NLCU ranked 65th in top line revenue in Atlantic Canada's Top 101 companies. This is the 14th consecutive year that NLCU has been named one of the Top 101 Companies in Atlantic Canada.

New Branch

On October 3, 2011, we commenced operations of our 13th branch in Churchill Falls. With the co-operation of Nalcor, we acquired the space previously occupied by the recently vacated bank branch, making NLCU the only financial services provider in the Town of Churchill Falls. I was delighted to officiate at the grand opening on February 2, 2012, and I congratulate Branch Manager, Owner Service, Michelle Senior and her team for a wonderful event. We look forward to the continued growth and prosperity of this new branch.

NLCU CELEBRATES THE OPENING OF ITS 13TH BRANCH WITH A RIBBON CUTTING CEREMONY

> “2011 was the most successful year to date for our Charitable Foundation, raising a total of $93,800 which was distributed to 90 charities province-wide.”

Performance

The Board congratulates our entire professional team for our financial and growth performance in 2011. The financial results and the growth achieved in the various categories of service testify to the level of dedicated hard work performed on behalf of all of us as owners. I'll leave it to our CEO, Allison Chaytor-Loveys, to provide you with the details but we are delighted to have achieved the $465,000,000 mark in on-book assets. It is a tremendous growth from Margaret Doyle's $10 deposit in 1957. These are Newfoundland and Labrador assets at work in Newfoundland and Labrador for over 21,000 Newfoundlanders and Labradorians.

On your behalf may I express our appreciation to all whose hard work, dedication, and loyalty have helped in achieving these results—our dedicated management and staff, our volunteers, our strategic partners, and especially our dedicated and loyal owners whose continued patronage and support shape us into the institution we are today and will become tomorrow.

Respectfully submitted,

Michael W. Boland
President and Board Chairman

NLCU NAMED ONE OF ATLANTIC CANADA'S BEST PLACES TO WORK FOR

NLCU was added to *Progress Magazine's* 10 Best Companies to Work For list. NLCU was selected for getting to know its employees better and supporting them in their quest to develop the best possible skills. Specific examples of why NLCU made the list included the annual "fireside chats" — annual information sessions hosted by the top two executives for all employees, and the weekly "power calls" between branch managers and all corporate office departments.

board of directors

Allison Chaytor-Loveys
Chief Executive Officer
and Treasurer

Kelly-Anne Meadus
Recording Secretary

Maureen Singleton
Director

Murray Loveless
Director

Patrick Collins
Director

Elizabeth Duff
Chief Financial
Officer

Glenn Bolger
Chief Operating
Officer and Corporate
Secretary

Raymond Hawco
Director

Damian Ryan
2^{nd} Vice President

Raymond Piercey
1^{st} Vice President

Michael W. Boland
President and Board Chairman

Daniel LaVallée
Director

Allan Skanes
Director

management's report

To the Owners of Newfoundland and Labrador Credit Union Limited

The financial statements and other financial information in the Annual Report were prepared by the management team of Newfoundland and Labrador Credit Union Limited and were approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly present the Credit Union's financial condition in accordance with the requirements of the *Credit Union Act and Regulations* thereunder and conform in all material aspects with International Financial Reporting Standards. To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established an appropriate system of internal audit and control which provides reasonable assurance at appropriate cost; that the assets are maintained and accounted for in accordance with its policies and procedures; and that transactions are recorded on the Credit Union's books and records.

Deloitte & Touche LLP, Chartered Accountants, has been appointed by the ownership as independent auditors to examine and report on the financial statements. They have had full and free access to the Board of Directors and provide an objective independent review of the fairness of reported operating results and financial position. Their report outlines the scope of their examination and their opinion.

January 30, 2012

A Chaytor-Loveys

Allison Chaytor-Loveys
Chief Executive Officer and Treasurer

Elizabeth Duff

Elizabeth Duff
Chief Financial Officer

MANAGEMENT TEAM

FRONT L-R: Fred Philpott, Lisa Loveridge, Sheila Hynes-Brenton, Yvonne Parsons, Novalee Weir, Elizabeth Duff, Allison Chaytor-Loveys, Glenn Bolger.

BACK L-R: Tony Young, Margie Beaton, Kent Farrell, Brian Beson, Shannon Goodyear, Judy Abbott, Roxanne Downey, Bill Farrell, Lyndon Combdon, Dana Thompson, Pam Jenkins, Michelle Senior, Laurie Roberts, Mercedes Lafitte, Michelle McGrath, Shawn Loder, JoAnne Ballard, Ann Marie Drohan, Jerry Jackman, Jackie Borden, Janice Kennedy-Humber, Jim Mayo, Shane Flight.

independent auditor's report

To the Owners of Newfoundland and Labrador Credit Union Limited

We have audited the accompanying financial statements of Newfoundland and Labrador Credit Union Limited, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche LLP

Chartered Accountants
January 30, 2012

statement of comprehensive income

Year ended December 31
(CDN dollars)

	2011	2010
	$	$
Financial revenue		
Owners' loans and mortgages (Note 4)	21,628,506	20,948,640
Investment income	658,808	405,315
	22,287,314	21,353,955
Cost of funds		
Interest on owners' deposits (Note 5)	7,784,024	7,787,146
Net financial income	14,503,290	13,566,809
Other income		
Service charges	2,099,924	2,057,904
Insurance commissions	697,507	638,250
Other	155,959	145,979
Rental	128,322	121,333
Financial margin and other income	17,585,002	16,530,275
Operating expenses		
Personnel	8,884,557	7,892,860
General business	3,470,673	3,117,837
Occupancy	1,237,085	1,219,278
Depreciation	946,510	897,026
Owners' security	947,134	1,072,210
Total operating expenses	15,485,959	14,199,211
Earnings before income taxes	2,099,043	2,331,064
Income taxes (Note 12)		
Current	544,391	552,257
Future	8,317	(19,625)
	552,708	532,632
Net earnings	1,546,335	1,798,432
Retained earnings, beginning of year	14,734,165	13,036,433
Dividends (Note 11)	(109,150)	(100,700)
Retained earnings, end of year	16,171,350	14,734,165

statement of financial position

Year ended December 31
(CDN dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Assets			
Cash and cash equivalents (Note 6)	8,401,791	8,974,221	7,882,087
Investments (Note 7)	37,825,877	43,619,256	41,163,802
Loans and mortgages receivable (Note 8)			
Personal loans	96,020,715	88,753,389	87,585,209
Mortgage loans	269,897,802	244,620,518	223,363,660
Commercial loans and mortgages	33,532,402	29,757,388	28,983,589
	399,450,919	363,131,295	339,932,458
Less allowance for impaired loans and mortgages (Note 9)	(742,282)	(901,232)	(827,975)
	398,708,637	362,230,063	339,104,483
Capital assets (Note 10)	15,557,348	13,970,997	12,534,298
Derivative financial instrument (Note 17)	1,969,625	3,578,760	2,330,206
Other assets	2,828,417	3,081,855	3,196,946
	465,291,695	435,455,152	406,211,822
Liabilities			
Bank indebtedness (Note 6)	2,441,500	-	-
Accounts payable and accrued liabilities	1,716,420	1,117,115	1,250,255
Government remittance payable	263,019	371,183	191,145
Severance provisions	1,176,934	1,030,706	862,351
Owners' deposits (Note 11)	441,552,847	414,623,223	388,541,432
Derivative financial instrument (Note 17)	1,969,625	3,578,760	2,330,206
	449,120,345	420,720,987	393,175,389
Owners' equity			
Retained earnings	16,171,350	14,734,165	13,036,433
	465,291,695	435,455,152	406,211,822

Approved on behalf of the Board:

Dan Lavallée ______________ Director

Allan Shane ______________ Director

statement of cash flows

Year ended December 31
(CDN dollars)

	2011	2010
	$	$
Operating activities		
Net earnings	1,546,335	1,798,432
Adjustments for:		
Provision for impaired loans and mortgages (Note 9)	94,924	245,800
Financial revenue	(22,287,314)	(21,353,955)
Cost of funds - interest on owners' deposits	7,784,024	7,787,146
Depreciation	946,510	897,026
Current income taxes (Note 12)	544,391	552,257
Future income taxes (Note 12)	8,317	(19,625)
	(11,362,813)	(10,092,919)
Changes in operating assets/liabilities:		
Change in loans and mortgages receivable	(36,507,060)	(23,384,066)
Change in owners' deposits	26,672,280	26,800,526
Change in other operating assets	245,121	134,716
Change in other operating liabilities	885,936	6,878
Cash generated (used) from operating activities before interest and taxes	(20,066,536)	(6,534,865)
Interest received	22,064,149	21,205,275
Interest paid	(7,612,964)	(8,517,537)
Income tax paid	(792,958)	(343,882)
	(6,408,309)	5,808,991
Investing activities		
Increase in bank indebtedness	2,441,500	-
Decrease (increase) in investments	5,950,106	(2,294,088)
Purchase of capital assets	(2,532,861)	(2,333,725)
	5,858,745	(4,627,813)
Financing activities		
Proceeds from issuance of membership share capital	77,834	5,107
Dividends paid on membership shares	(100,700)	(94,151)
	(22,866)	(89,044)
Net change in cash and cash equivalents	(572,430)	1,092,134
Cash and cash equivalents, beginning of year	8,974,221	7,882,087
Cash and cash equivalents, end of year	8,401,791	8,974,221

1. REPORTING ENTITY

Newfoundland and Labrador Credit Union Limited (the "Credit Union" or "NLCU") is incorporated under the Credit Union Act of Newfoundland and Labrador (the "Act") and is a member of the Credit Union Deposit Guarantee Corporation of Newfoundland and Labrador. The Credit Union commenced operations in 1957. It currently operates thirteen branches that offer a full range of financial services to the people of Newfoundland and Labrador. The registered office of NLCU is at 240 Water Street, St. John's, Newfoundland.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB").

These are the Credit Union's first financial statements to be prepared in accordance with IFRS, and *IFRS 1 First-Time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied. The preparation of these financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous Canadian generally accepted accounting principles ("Canadian GAAP"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Credit Union is included in Note 18.

The financial statements for the year ended December 31, 2010 were authorized for issue by the Board of Directors on February 17, 2011.

Basis of preparation

These financial statements are presented in Canadian dollars which is the Credit Union's functional currency. They are prepared on the historical cost basis except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss ("FVTPL") which are stated at their fair value.

Use of significant accounting judgments, estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosures of contingent assets and contingent liabilities at the date of these financial statements, and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on

2. BASIS OF PREPARATION (CONTINUED)

Use of significant accounting judgments, estimates and assumptions (continued)

historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimates made in these financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS have a significant effect on these financial statements. The Notes to the Financial Statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Credit Union's financial statements such as:

a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from observable markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, and prepayment rates. The valuation of financial instruments is described in more detail in Note 16.

b) Impairment losses on loans and advances

The Credit Union reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors such as the length of time payments are past due and the amount of security held on the loan. Actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet

2. BASIS OF PREPARATION (CONTINUED)

Use of significant accounting judgments, estimates and assumptions (continued)

b) Impairment losses on loans and advances (continued)

evident. The collective assessment takes into account data from the loan portfolio (such as levels of arrears, credit utilization, security, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in Note 9.

c) Impairment of available-for-sale investments

The Credit Union reviews its equity instruments classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Credit Union also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

d) Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets to recognize, based upon the likely timing and level of future taxable income, together with future tax planning strategies.

e) Economic lives of capital assets

Management determines the estimated useful lives of its capital assets based on historical experience of the actual lives of capital assets of similar nature and functions, and reviews these estimates at the end of each reporting period.

f) Provisions

The amount recognized as provisions relates to the entity's severance accrual and is the best estimate of the consideration required to settle the related liability, taking into account the risks and uncertainties surrounding the obligation. In addition, severance will only be resolved when employees who have been working with the Credit Union for twenty years, cease employment with the Credit Union. Therefore, an assessment of the severance accrual inherently involves the exercise of significant judgment and estimates of the number of employees who will continue working with the Credit Union for twenty years, until their severance vests. The Credit Union assesses its severance accrual based upon the best information available and other appropriate requirements.

2. BASIS OF PREPARATION (CONTINUED)

Use of significant accounting judgments, estimates and assumptions (continued)

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing these financial statements are reasonable. Actual results in the future may differ from those reported.

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to the existing standards have been issued by the IASB, but are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements:

a) Presentation of financial statements

In June 2011, the IASB amended IAS 1 - *Presentation of Financial Statements: Other Comprehensive Income* ("IAS 1"), which will be applied retrospectively for annual periods beginning on or after July 1, 2012. The amendments require additional disclosures on components of other comprehensive income ("OCI"). The Credit Union is assessing the potential impact of these amendments.

b) Financial instruments

In November 2009 and October 2010, the IASB issued IFRS 9 - *Financial instruments* ("IFRS 9"), *Classification and Measurement of Financial Assets and Financial Liabilities*. IFRS 9 will replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Credit Union is assessing the potential impact of this standard.

c) Financial instruments: disclosures

In October 2010, the IASB amended IFRS 7 - *Financial instruments: Disclosures*, which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets. The Credit Union is assessing the potential impact of these amendments.

d) Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - *Fair Value Measurement* ("IFRS 13"). IFRS 13 defines fair value and sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Credit Union is assessing the potential impact of this new standard.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently by the Credit Union to all periods presented in these financial statements and in preparing an opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS as required by IFRS 1, without exception.

Financial instruments

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

The Credit Union is required to classify all financial assets either as fair value through profit or loss (FVTPL), available-for-sale, held-to-maturity, or loans and receivables and, financial liabilities are classified as either fair value through profit or loss, or other liabilities. The standards require that all financial assets and financial liabilities, including all derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably estimated, and other liabilities.

a) Classification

Cash	Loans and receivables
Investments:	
Equity investments	Available-for-sale
Liquidity reserve	Loans and receivables
Loans and mortgages	Loans and receivables
Other Assets:	
Accounts receivable	Loans and receivables
Owners' deposits	Other liabilities
Other liabilities	Other liabilities
Derivative financial instruments	Fair value through profit or loss

b) Fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities are classified as FVTPL when the financial asset or financial liability is held for trading or it is designated as FVTPL if certain criteria are met.

Financial assets and financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The Credit Union's financial instruments designated as FVTPL consists of derivative financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are initially recognized at fair value. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and the gains and losses on such assets are recorded in other comprehensive income until the investment is derecognized or until the investment is identified as being subject to impairment.

Dividend income is recognized in profit or loss when the Credit Union's right to receive the dividends is established. Interest income is recognized in income using the effective interest method.

Shares in Central 1, League Data, and Concentra held by the Credit Union that are not traded in an active market are classified as available-for-sale. Available-for-sale equity investments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

d) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Credit Union does not intend to sell immediately or in the near term. Loans and receivables including cash, liquidity reserve investments, loans to owners, accrued interest on loans, accrued interest on investments, and accounts receivable, are measured at amortized cost using the effective interest method, net of impairment losses.

Interest income is recognized by applying the effective interest rate.

e) *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, transaction costs and other premiums or discounts) through the expected life of the asset/liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

f) *Impairment of financial assets and allowance for impaired loans*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

f) Impairment of financial assets and allowance for impaired loans (continued)

there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The amount of impairment on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The impairment loss on financial assets is based on a review of all outstanding amounts at period end. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to owners, where the carrying amount is reduced using an allowance account. The allowance for impaired loans is maintained in an amount considered adequate to absorb incurred losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of a specific provision component attributable to individually significant exposures and, where applicable, a collective provision, established for groups of loans with similar risk characteristics. Changes in the carrying amount of the allowance account are recognized in profit and loss. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery. The methodology and assumptions used are reviewed regularly. Each component of the allowance for impaired loans is reviewed at least on the reporting date.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

Subsequent to an impairment loss, events can occur that provide objective evidence that the financial asset is no longer impaired. When this occurs the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed the amortized cost that would have resulted had the impairment not been recognized.

g) Derecognition of financial assets

The Credit Union derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

g) Derecognition of financial assets (continued)

The Credit Union continues to recognize the transferred asset to the extent that the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset or when the Credit Union retains substantially all the risks and rewards of ownership. In the latter case, the Credit Union also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received/receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

h) Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

i) Derecognition of financial liabilities

The Credit Union derecognizes financial liabilities when, and only when, the Credit Union's obligations are discharged, cancelled or they expire.

j) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and Credit Union Centrals and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is considered equivalent to fair value due to the short-term nature of these assets.

Loans to owners

Loans to owners include personal loans, mortgages and commercial loans and are recognized when the cash is advanced to the borrower. All loans to owners are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets are measured at cost less accumulated depreciation and any accumulated impairment losses. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment.

Depreciation methods, useful lives, and residual values are reassessed at the end of each reporting period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Deposits from owners

Deposits from owners are disclosed in Note 11 and are the Credit Union's main source of funding. They are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Provisions

Provisions are recognized when the Credit Union has a present obligation (legal or constructive), as a result of a past event, it is probable that the Credit Union will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

a) Short-term employee benefits

Short-term employee benefits include salaries and wages, employee benefits, allowances, bonuses and burdens. Short-term employee benefits are expensed as the related service is provided.

b) Severance benefits

Severance benefits are accounted for on an accrual basis and are calculated based upon years of service and current salary levels. The right to be paid severance pay vests with employees with twenty years of continual service with the Credit Union. Severance is payable when the employee ceases employment with the Credit Union.

Ownership shares

The Credit Union's ownership shares are presented in the statement of financial position as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. These shares qualify as capital for regulatory purposes. All ownership shares of the Credit Union are classified as liabilities. Payments of dividends on ownership shares presented as a financial liability are recognized as a distribution of profit or loss. Dividends are recorded when declared by the Board of Directors.

Revenue recognition

Interest income is accrued monthly by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognized when the right to receive payment is established. Dividends are included in interest income on the statement of comprehensive income.

Other fees and commission income include account service fees, investment management fees, and insurance fees which are recognized over the period the services are performed.

Income taxes

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred tax is recognized in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the asset can be utilized.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the statement of comprehensive income.

Foreign currency translation

The financial statements are presented in Canadian dollars ($).

Transactions in foreign currencies are initially translated into Canadian dollars at the rate of exchange in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the statement of financial position date.

Translation gains and losses are recognized immediately in profit or loss and are included in the 'other income' line item in the statement of comprehensive income.

Financial guarantees

Financial guarantees are contracts that require the Credit Union to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the debt instrument. Financial guarantee liabilities are recognized at fair value.

(CDN dollars)

4. FINANCIAL REVENUE – OWNERS' LOANS AND MORTGAGES

	December 31, 2011	December 31, 2010
	$	$
Personal loans	6,066,712	6,048,467
Residential mortgages	13,492,110	12,974,863
Commercial loans and mortgages	2,069,684	1,925,310
	21,628,506	20,948,640

Total interest income reported above on loans and mortgages is calculated using the effective interest method.

5. INTEREST ON OWNERS' DEPOSITS

	December 31, 2011	December 31, 2010
	$	$
Personal chequing accounts	19,417	15,428
Savings accounts	656,437	484,113
Term deposits	3,387,252	3,593,349
Registered savings accounts	2,671,230	2,805,263
Tax-free savings account	212,718	87,561
Index linked deposits	824,753	798,763
Other	12,217	2,669
	7,784,024	7,787,146

Total interest expense reported above on owners' deposits is calculated using the effective interest method.

(CDN dollars)

6. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Cash on hand	**3,728,547**	3,248,004	3,422,532
Cash held with Credit Union Centrals	**1,046,198**	3,210,560	2,061,507
Cash held with other chartered banks	**3,627,046**	2,515,657	2,398,048
	8,401,791	8,974,221	7,882,087

The Credit Union has available lines of credit with Central 1 in the amount of $7,500,000. As at December 31, 2011, $2,441,500 was drawn on this facility, but was unutilized at December 31, 2010 and January 1, 2010.

7. INVESTMENTS

The following table provides information on the investments held by the Credit Union.

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Loans and receivables			
Mandatory liquidity reserve deposits	**27,940,000**	26,009,000	24,138,000
Other deposits	**9,060,048**	16,941,154	16,518,066
Available-for-sale			
Equity investments	**457,107**	457,107	457,107
	37,457,155	43,407,261	41,113,173
Accrued interest	**368,722**	211,995	50,629
Carrying value	**37,825,877**	43,619,256	41,163,802
Market value	**37,825,877**	43,619,256	41,163,802

Central 1 Credit Union - liquidity reserve deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 6% of the total assets as at each month end. At maturity, these deposits are reinvested at market rates for various terms as determined by management. The deposit can be withdrawn only if there is a sufficient reduction in the Credit Union's assets or upon withdrawal of membership from Central 1.

(CDN dollars)

7. INVESTMENTS (CONTINUED)

Equity investments

Equity investments are recorded at cost as they do not have quoted market prices in an active market.

8. LOANS TO OWNERS

Mortgages are repayable in monthly blended principal and interest installments over a maximum term of seven years based on a maximum amortization as prescribed by Provincial law. Mortgages are secured by residential properties.

Personal loans, including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest installments over a period acceptable by Provincial law, except for line of credit loans, which are repayable on a revolving credit basis and require minimum monthly payments. All loans, except for mortgage loans, are open and, at the option of the borrower, may be repaid at any time without notice. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

Credit quality of loans

A breakdown of the security held on a portfolio basis is as follows:

	December 31, 2011	December 31, 2010
	$	$
Uninsured mortgages	108,349,135	91,917,052
Insured mortgages	188,261,599	178,420,731
Unsecured loans	36,989,886	36,215,940
Secured loans	65,850,299	56,577,572
	399,450,919	363,131,295

Syndicated loans

At December 31, 2011, the Credit Union was administering a portion of two mortgages and one loan, for a fee, on behalf of one owner. These instruments do not wholly belong to the Credit Union, therefore a portion was not included in the financial statements (December 31, 2011 - $8,774,242, December 31, 2010 - $8,763,717 and January 1, 2010 - $7,226,044).

(CDN dollars)

9. ALLOWANCE FOR IMPAIRED LOANS

The activity in the allowance for impaired loans is summarized as follows:

	2011				2010
	Personal	Mortgages	Commercial	Total	Total
	$	$	$	$	$
Balance, beginning of year	823,560	–	77,672	901,232	827,975
Loans written-off as uncollectable	(253,874)	–	–	(253,874)	(172,543)
Provision for impaired loans and mortgages	94,370	–	544	94,924	245,800
Balance, end of year	664,056	–	78,226	742,282	901,232

Credit quality of owner loans is summarized as follows:

	Personal	Mortgages	Commercial	Total 2011
	$	$	$	$
Neither past due [(1)] nor impaired	95,191,401	269,433,500	33,454,176	398,079,077
Past due but not impaired				
31 to 90 days	130,172	239,198	–	369,370
91 days and greater	35,086	225,104	–	260,190
Impaired	664,056	–	78,226	742,282
	96,020,715	269,897,802	33,532,402	399,450,919
Less: specific allowances	(664,056)	–	(78,226)	(742,282)
	95,356,659	269,897,802	33,454,176	398,708,637

[(1)] A loan is considered to be past due when the counterparty has not made a payment the day of the contractual payment date.

(CDN dollars)

9. ALLOWANCE FOR IMPAIRED LOANS (CONTINUED)

	Personal	Mortgages	Commercial	Total 2010
	$	$	$	$
Neither past due [1] nor impaired	87,712,678	243,735,587	29,679,716	361,127,981
Past due but not impaired				
31 to 90 days	165,961	759,746	–	925,707
91 days and greater	51,190	125,185	–	176,375
Impaired	823,560	–	77,672	901,232
	88,753,389	244,620,518	29,757,388	363,131,295
Less: Specific allowances	(823,560)	–	(77,672)	(901,232)
	87,929,829	244,620,518	29,679,716	362,230,063

[1] A loan is considered to be past due when the counterparty has not made a payment the day of the contractual payment date.

(CDN dollars)

10. CAPITAL ASSETS

	Land	Buildings	Roof & Air Conditioning	Paved Areas	Leasehold Improvements
	$	$	$	$	$
Rate		50 Years	25 Years	8.00%	5 Years
Cost					
Balance, beginning of year	3,262,212	10,196,543	1,465,250	457,524	1,326,277
Additions	685,494	1,020,960	74,663	27,070	345,878
Disposals	-	-	-	-	-
Balance, end of year	3,947,706	11,217,503	1,539,913	484,594	1,672,155
Accumulated depreciation					
Balance, beginning of year	-	2,469,839	431,645	175,999	1,262,189
Depreciation expense	-	227,423	60,048	22,522	110,838
Disposals	-	-	-	-	-
Balance, end of year	-	2,697,262	491,693	198,521	1,373,027
Net Book Value	3,947,706	8,520,241	1,048,220	286,073	299,128

	Land	Buildings	Roof & Air Conditioning	Paved Areas	Leasehold Improvements
	$	$	$	$	$
Rate		50 Years	25 Years	8.00%	5 Years
Cost					
Balance, beginning of year	2,788,282	9,074,566	1,465,250	342,459	1,322,928
Additions	473,930	1,121,977	-	115,065	3,349
Disposals	-	-	-	-	-
Balance, end of year	3,262,212	10,196,543	1,465,250	457,524	1,326,277
Accumulated depreciation					
Balance, beginning of year	-	2,245,733	371,597	151,519	1,220,527
Depreciation expense	-	224,106	60,048	24,480	41,662
Disposals	-	-	-	-	-
Balance, end of year	-	2,469,839	431,645	175,999	1,262,189
Net Book Value	3,262,212	7,726,704	1,033,605	281,525	64,088

(CDN dollars)

2011

Furniture and Equipment	Computer Terminals	Automated Banking Machines	Automobile	Personal Computers and Software	Total 2011
$	$	$	$	$	$
20.00%	5 Years	5 Years	5 Years	3 Years	
4,880,948	518,366	1,722,439	53,708	1,462,703	25,345,970
260,295	-	-	-	118,501	2,532,861
-	-	-	-	-	-
5,141,243	518,366	1,722,439	53,708	1,581,204	27,878,831
3,886,396	414,542	1,374,900	10,742	1,348,721	11,374,973
250,969	32,608	121,487	10,741	109,874	946,510
-	-	-	-	-	-
4,137,365	447,150	1,496,387	21,483	1,458,595	12,321,483
1,003,878	71,216	226,052	32,225	122,609	15,557,348

2010

Furniture and Equipment	Computer Terminals	Automated Banking Machines	Automobile	Personal Computers and Software	Total 2010
$	$	$	$	$	$
20.00%	5 Years	5 Years	5 Years	3 Years	
4,719,338	440,165	1,527,280	-	1,331,879	23,012,147
161,610	78,201	195,159	53,708	130,824	2,333,823
-	-	-	-	-	-
4,880,948	518,366	1,722,439	53,708	1,462,703	25,345,970
3,637,758	380,076	1,206,723	-	1,264,014	10,477,947
248,638	34,466	168,177	10,742	84,707	897,026
-	-	-	-	-	-
3,886,396	414,542	1,374,900	10,742	1,348,721	11,374,973
994,552	103,824	347,539	42,966	113,982	13,970,997

(CDN dollars)

11. OWNERS' DEPOSITS

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Personal chequing accounts	**71,510,479**	63,686,940	57,927,747
Savings accounts	**94,690,638**	89,986,501	79,463,230
Term deposits	**124,254,260**	119,422,489	118,322,699
Registered retirement savings plans	**113,033,056**	111,694,164	110,084,635
Registered retirement income funds	**16,195,804**	14,801,014	12,292,661
Tax-free savings accounts	**14,866,128**	8,107,467	3,530,919
Share accounts	**7,002,482**	6,924,648	6,919,541
	441,552,847	414,623,223	368,541,432

Term deposits

Term deposits for periods of one to seven years generally may not be withdrawn, prior to maturity.

Registered retirement plans

The Credit Union has engaged a third party to act as the trustee for the registered retirement plans offered to owners. Under an agreement with the third party, owners' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the owners, or the parties designated by them, by the Credit Union, on behalf of the trustee.

Share accounts

Owner equity shares shall consist of 20 shares at a par value of five dollars ($5.00) per share. The holders of owner equity shares have all of the rights and privileges and are subject to the restrictions of an owner, as provided for in the *Credit Union Act and Regulations* and in the By-laws of the Credit Union. Currently, there are 16,832 (2010 – 15,969) fully paid equity share accounts with a dollar value of $2,278,817 (2010 - $2,114,223).

Surplus shares may be issued in an unlimited number at a par value of five dollars ($5.00) per share. The holders of surplus shares have all of the rights and privileges and are subject to the restrictions applicable to owners, as outlined in the *Credit Union Act and Regulations* and in the By-laws of the Credit Union. Currently, there are 2,543 (2010 – 2,549) fully paid surplus share accounts with a dollar value of $13,415 (2010 - $12,175).

(CDN dollars)

11. OWNERS' DEPOSITS (CONTINUED)

Share accounts (continued)

Incentive shares may be issued by the Credit Union to a maximum number of ten thousand shares as approved by the Regulator in accordance with the *Credit Union Act and Regulations* and in the By-laws of the Credit Union. Currently, there are 959 (2010 – 980) shares accounts outstanding with a dollar value of $4,710,250 (2010 - $4,798,250).

Share accounts are not insured by the Credit Union Deposit Guarantee Corporation, however, they qualify as capital for regulatory purposes, notwithstanding their financial statement classification as liabilities.

Dividends

Dividends on shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet the regulatory requirements of the Act as described in Note 13.

The Board of Directors declared a dividend of $109,150 as of December 31, 2011 (2010 - $100,700).

12. INCOME TAXES

The provision for income taxes reported for the year ended December 31 differs from the amount computed by applying the Canadian statutory rate to income before income taxes for the following reasons:

	December 31, 2011	December 31, 2010
	$	$
Net income before tax	2,099,043	2,331,064
Income tax expense based on statutory rate of 25% (2010 - 25%)	524,761	582,766
Effect of non-deductible expenses	104,946	66,313
Other	(85,316)	(96,822)
	544,391	552,257
Future income tax expense (recovery)	8,317	(19,625)
Total income tax expense	552,708	532,632

(CDN dollars)

12. INCOME TAXES (CONTINUED)

Temporary differences, which give rise to the deferred income tax asset, are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Deferred income tax assets (liabilities)			
Capital assets and other	**(229,270)**	(184,396)	(161,932)
Severance	**294,234**	257,677	215,588
Deferred income tax asset	**64,964**	73,281	53,656

13. CAPITAL ADEQUACY

Capital management

The Board approves annually the capital management policy and the annual business plan. This policy outlines the Credit Union's overall objectives and guidelines to ensure that the Credit Union has the required quantity, quality and appropriate composition of capital needed to address the inherent risks of the Credit Union and to support the current and future operating plans.

The Act requires credit unions to maintain a minimum capital adequacy reserve (consists of share capital and retained earnings) of 5% of total assets or alternatively, using an 8% risk weighted model. Additionally, retained earnings cannot be less than 3% of the total assets. The Credit Union is in compliance with its policies and those of the Act regarding regulatory capital as at December 31 as outlined in the following table.

(CDN dollars)

13. CAPITAL ADEQUACY (CONTINUED)

Capital management (continued)

	December 31, 2011	December 31, 2010
	$	$
Retained earnings	16,171,350	14,734,165
Owner shares	7,002,482	6,924,648
Future tax asset	(64,964)	(73,281)
Capital base	23,108,868	21,585,532
Risk weighted assets	157,964,091	142,006,696
Capital adequacy		
Actual	14.63%	15.20%
Regulatory requirement	8.00%	8.00%
Retained earnings as a percentage of assets		
Actual	3.48%	3.38%
Regulatory requirement	3.00%	3.00%

On a risk weighted basis the Credit Union's capital position for the period ended December 31, 2011 was 14.63% (2010 – 15.20%) and the capital held in retained earnings was 3.48% (2010 – 3.38%) of total assets. NLCU has exceeded the risk weighted capital required by regulators by 6.63% (2010 – 7.20%) and exceeded retained earnings capital requirement by 0.48% (2010 – 0.38%).

14. RELATED PARTY TRANSACTIONS

At December 31, 2011, the aggregate value of personal and mortgage loans outstanding to directors, officers and related parties totaled $1,431,049 (2010 – $1,390,294). The maximum balances of these loans during the year was $1,536,144 (2010 – $1,449,329). The aggregate value of deposits outstanding to directors, officers and related parties totaled $2,289,651 (2010 - $2,065,297).

The interest rates charged on balances outstanding from directors, officers and their related parties are the same as those charged in an arm's length transaction. Loan and mortgage balances with related parties are secured as per the Credit Union's lending policies.

There was no allowance for impaired loans required in respect of these loans as at December 31, 2011 and December 31, 2010.

(CDN dollars)

14. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel received salaries and other short-term employee benefits during the year of $3,168,200 (2010 – $3,092,760).

At December 31, 2011, directors received expense reimbursement of $28,156 (2010 - $22,172) and remuneration of $59,400 (2010 - $49,133) for serving the Credit Union.

15. COMMITMENTS

Under present lease agreements for rental space the Credit Union is committed to the following expenditures:

	$
2012	163,797
2013	114,898
2014	80,442
2015	76,376
2016	26,380
	461,893

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value

The Credit Union's financial instruments are calculated using the valuation methods and assumptions described below. The fair values do not reflect the value of assets that are not considered financial instruments, such as prepaids, property, plant and equipment, deferred tax asset and accrued severance liability.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair values of cash and cash equivalents, certain other assets and certain other liabilities are assumed to approximate their carrying values, due to their short-term nature.

The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

The fair value of investments is based on quoted market values where available (see Note 3).

Shares in Central 1, League Data, and Concentra are measured at cost, less any identified impairment losses at the end of each reporting period. These investments do not have a quoted price in an active market and their fair value cannot be reliably measured.

The Credit Union holds derivative financial instruments classified as FVTPL. These are classified as Level 2 financial instruments.

There has been no significant transfer of amounts between Level 1, Level 2 and Level 3 financial instruments for the years ending December 31, 2011 and 2010.

Additionally, there are no financial instruments classified in Level 3.

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

Credit risk

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

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective process to assess the borrower's ability to repay.

The Credit Union mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an on-going basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union include, but are not limited to, the following: member's personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

(CDN dollars)

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The Act requires credit unions to maintain 6% of liabilities for adequate liquidity. Assets held by the Credit Union for such purposes are outlined in the table below.

	December 31, 2011	December 31, 2010
	$	$
Cash and cash equivalents	8,401,791	8,974,221
Investments		
Concentra Financial (matures Jan 2012)	2,044,425	2,029,612
Concentra Financial (matures May 2012)	2,063,924	2,042,408
Concentra Financial (matures July 2012)	1,030,297	2,000,773
Concentra Financial	-	2,000,000
Central 1 (matures Jan 2012)	1,000,000	-
Liquidity reserve deposit	27,940,000	26,009,000
Total assets held for liquidity	42,480,437	43,056,014

Contractual maturities of financial liabilities are shown under interest rate risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

Market risk

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union's Asset and Liability Management and Investment Policy set by the Board. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements; dollar volume and yields of all investments by investment category; and the particulars of all investment transactions entered into by the Credit Union. All exceptions noted are to be reported to the Board.

The Board is responsible for monitoring significant variances and ensuring that corrective measures are implemented.

(CDN dollars)

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets or which are priced on a different basis. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board and regulations.

The table below summarizes the carrying amounts of financial instruments exposed to interest rate risk by maturity dates.

						2011	
	On Demand	Less than 3 months	3 months to one year	One to five years	Non-rate sensitive	Total	Effective interest rate
	$	$	$	$	$	$	%
Investments	-	28,407,645	6,006,841	3,369,744	41,647	37,825,877	1.58
Loans and advances to owners	84,438,421	11,081,795	57,713,872	243,343,678	2,873,153	399,450,919	5.04
Deposits from owners	99,481,746	33,183,784	76,229,004	138,272,084	94,386,229	441,552,847	1.79

At December 31, 2011, if interest rates at that date had been 100 (2010 – 100) basis points lower with all other variables held constant, after-tax net income for the year would have been approximately $197,276 (2010 - $326,400) lower, arising mainly as a result of lower interest revenue on variable loans and mortgages, and lower interest revenue on liquidity investments. If interest rates had been 100 (2010 – 100) basis points higher, with all other variables held constant, after-tax net income would have been $146,565 (2010 - $199,100) higher, arising mainly as a result of higher interest revenue on variable loans and mortgages, and higher interest on liquidity investments.

Foreign currency exchange risk

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances or currencies of its foreign currency liabilities are not matched with the balances of its foreign currency assets. It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency liabilities to its foreign currency assets. The Credit Union does not hold foreign investments beyond cash required to meet daily operational requirements.

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Index-linked deposits

At December 31, 2011, the Credit Union has issued $32,666,782 (2010 - $32,038,315) of index-linked term deposits (registered and non-registered deposits) to its owners. These term deposits have maturities of three and five years and pay interest to the depositors at the end of the term based on the performance of various Toronto Stock Exchange ("TSX") indices. The Credit Union has entered into derivative agreements with Central 1 to offset the exposure to these indices associated with these products. The Credit Union pays Central 1 a fixed amount on the face value of these term deposit products. At the end of the respective terms, the Credit Union receives payments from the counterparty, Central 1; equal to the amount that will be paid to the depositors based on the performance of various TSX indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have a fair value that varies based on the particular contract and changes in interest rates. The fair value of these agreements is $1,969,625 (2010 - $3,578,760) at year end and has been accounted for as an embedded derivative in accordance with the Credit Union's accounting policy.

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Credit Union has adopted IFRS effective January 1, 2011 and the financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS. Prior to the adoption of IFRS, the Credit Union prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Credit Union's transition date is January 1, 2010 (the "transition date") and the Credit Union has prepared its opening IFRS statement of financial position at that date. The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position as at January 1, 2010. The Credit Union has applied *IFRS 1, First Time Adoption of International Financial Reporting Standards* ("IFRS 1") in preparing these first IFRS financial statements. In preparing the opening IFRS statement of financial position, the Credit Union has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. This note explains the principal adjustments made by the Credit Union in restating its Canadian GAAP balances as at January 1, 2010 and its previously issued Canadian GAAP financial statements for the year ended December 31, 2010.

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Elected exemptions from full retrospective application

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs, which are effective for December 2011 year ends retrospectively. IFRS 1 also includes mandatory exceptions to the retrospective application of IFRSs.

The Credit Union has applied the following exemptions:

Business combinations

IFRS 1 allows a first-time adopter to elect not to apply *IFRS 3 Business Combinations* ("IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. The Credit Union has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred prior to January 1, 2010.

Fair value revaluation as deemed cost

This election allows the Credit Union to measure certain items of property, plant and equipment at the date of transition at their fair value, and to use that fair value as deemed cost at that date.

Mandatory exceptions to retrospective application

In preparing these financial statements in accordance with IFRS 1 the Credit Union has applied the following mandatory exceptions from full retrospective application of IFRS:

Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Credit Union under Canadian GAAP are consistent with their application under IFRS.

Derecognition of financial assets and financial liabilities

The Credit Union has early adopted the amendment to IFRS 1, which is effective for years commencing on or after July 1, 2011 and has applied the derecognition requirements required by *IAS 39 - Financial Instruments: Recognition and Measurement* ("*IAS 39*"), prospectively for transactions that occurred on or after the date of transition to IFRS. Any non-derivative financial assets and liabilities derecognized prior to the date of transition to IFRS in accordance with Canadian GAAP have not been reviewed for compliance with IAS 39 derecognition requirements.

(CDN dollars)

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Effect of transition

The following tables set out the impact of adoption of IFRS on the opening statement of financial position as at January 1, 2010 and the statement of financial position as at December 31, 2010:

				January 1, 2010
	Previous Canadian GAAP	Effect of transition to IFRS	Re-classifications	IFRS
	$	$	$	$
Assets				
Cash and cash equivalents	7,882,087	-	-	7,882,087
Investments	41,163,802	-	-	41,163,802
Loans and mortgages receivable				
Personal loans	87,585,209	-	-	87,585,209
Mortgage loans	223,363,660	-	-	223,363,660
Commercial loans and mortgages	28,983,589	-	-	28,983,589
	339,932,458	-	-	339,932,458
Less allowance for impaired loans and mortgages	(827,975)	-	-	(827,975)
	339,104,483	-	-	339,104,483
Capital assets (Notes a and b)	11,856,530	677,768	-	12,534,298
Derivative financial instrument	2,330,206	-	-	2,330,206
Other assets (Note c)	3,622,935	(425,989)	-	3,196,946
	405,960,043	251,779	-	406,211,822
Liabilities				
Bank indebtedness	-	-	-	-
Accounts payable and accrued liabilities	1,250,255	-	-	1,250,255
Government remittance payable	191,145	-	-	191,145
Severance provisions (Note d)	558,309	304,042	-	862,351
Owners' deposits	388,541,432	-	-	388,541,432
Derivative financial instrument	2,330,206	-	-	2,330,206
	392,871,347	304,042	-	393,175,389
Owners' equity				
Retained earnings	13,088,696	(52,263)	-	13,036,433
	405,960,043	251,779	-	406,211,822

(CDN dollars)

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Effect of transition (continued)

				December 31, 2010
	Previous Canadian GAAP	Effect of transition to IFRS	Re-classifications	IFRS
	$	$	$	$
Assets				
Cash and cash equivalents	8,974,221	-	-	8,974,221
Investments	43,619,256	-	-	43,619,256
Loans and mortgages receivable				
Personal loans	88,753,389	-	-	88,753,389
Mortgage loans	244,620,518	-	-	244,620,518
Commercial loans and mortgages	29,757,388	-	-	29,757,388
	363,131,295	-	-	363,131,295
Less allowance for impaired loans and mortgages	(901,232)	-	-	(901,232)
	362,230,063	-	-	362,230,063
Capital assets (Notes a and b)	13,270,379	700,618	-	13,970,997
Derivative financial instrument	3,578,760	-	-	3,578,760
Other assets (Note c)	3,374,546	(292,691)	-	3,081,855
	435,047,225	407,927	-	435,455,152
Liabilities				
Bank indebtedness	-	-	-	-
Accounts payable and accrued liabilities	1,247,597	-	-	1,117,115
Government remittance payable	240,701			371,183
Severance provisions (Note d)	783,410	247,296	-	1,030,706
Owners' deposits	414,623,223	-	-	414,623,223
Derivative financial instrument	3,578,760	-	-	3,578,760
	420,473,691	247,296	-	420,720,987
Owners' equity				
Retained earnings	14,573,534	160,631	-	14,734,165
	435,047,225	407,927	-	435,455,152

(CDN dollars)

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Effect of transition (continued)

The following table sets out a reconciliation of total owners' equity under Canadian GAAP as at January 1, 2010 and December 31, 2010 to total owners' equity under IFRS:

	December 31, 2010	January 1, 2010
	$	$
Total owners' equity under Canadian GAAP	14,573,534	13,088,696
Transitional adjustments		
Fair value of land as deemed cost (Note a)	-	945,888
Property, Plant and Equipment (Note b)	(25,021)	(268,120)
Intangibles (Note c)	129,623	(444,553)
Provision (Note d)	56,746	(304,042)
	161,348	(70,827)
Tax effect of the above (Note e)	51,546	18,564
Adjustment to owners' equity for January 1, 2010	(52,263)	-
Total adjustment to owners' equity	160,631	(52,263)
Total owners' equity under IFRSs	14,734,165	13,036,433

(CDN dollars)

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Effect of transition (continued)

The following table sets out a reconciliation of the statement of comprehensive income for the year ended December 31, 2010:

	December 31, 2010			
	Previous Canadian GAAP	Effect of transition to IFRS	Re-classifications	IFRS
	$	$	$	$
Financial revenue				
Owners' loans and mortgages	20,948,640	-	-	20,948,640
Investment income	405,315	-	-	405,315
	21,353,955	-	-	21,353,955
Cost of funds				
Interest on owners' deposits	7,787,146	-	-	7,787,146
Net financial income	13,566,809	-	-	13,566,809
Other income				
Service charges	2,057,904	-	-	2,057,904
Insurance commissions	638,250	-	-	638,250
Other	145,979	-	-	145,979
Rental	121,333	-	-	121,333
Financial margin and other income	16,530,275	-	-	16,530,275
Operating expenses				
Personnel (Note d)	7,949,606	(56,746)	-	7,892,860
General business (Note c)	3,036,183	81,654	-	3,117,837
Occupancy	1,219,278	-	-	1,219,278
Depreciation (Notes a and b)	1,083,282	(186,256)	-	897,026
Owners' security	1,072,210	-	-	1,072,210
Total operating expenses	14,360,559	(161,348)	-	14,199,211
Earnings before income taxes	2,169,716	161,348	-	2,331,064
Income taxes (recovery)				
Current	552,257	-	-	552,257
Future	31,921	(51,546)	-	(19,625)
	584,178	(51,546)	-	532,632
Net earnings	1,585,538	212,894	-	1,798,432
Retained earnings, beginning of year	13,088,696	(52,263)	-	13,036,433
Dividends	(100,700)	-	-	(100,700)
Retained earnings, end of year	**14,573,534**	**160,631**	**-**	**14,734,165**

18. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Effect of transition (continued)

Notes to the reconciliations of the statement of financial position, the reconciliation of total equity and the reconciliation of the statement of comprehensive income:

a) Under IFRS 1, an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. As a result, the Credit Union has elected to record land at its fair value and has recorded an adjustment to property, plant and equipment and retained earnings based on the difference between the carrying value of land under Canadian GAAP and the fair value as of January 1, 2010.

b) Under *IAS 16 Property, plant and equipment*, an entity is required to allocate the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciate separately each such part. As a result, the Credit Union has recognized an adjustment to increase accumulated depreciation and decrease owners' equity as of January 1, 2010 and December 31, 2010.

c) The entity has adjusted for intangible assets previously recorded under Canadian GAAP that no longer qualify as intangible assets under IFRS. The adjustment as of January 1, 2010 represents the net book value of these intangible assets. The adjustment as of December 31, 2010 represents depreciation expense taken during the year on these intangible assets.

d) Under IFRS, reserves and/or accruals for which there is a significant degree of uncertainty about the amount or timing of the payment are classified as provisions. In addition, a provision must be discounted when the time-value of money is material. Therefore, the Credit Union reclassified certain accruals to provisions and has discounted these provisions where applicable.

e) The net effect of the adjustments above on the deferred tax recognized by the Credit Union is $18,564.

Material adjustments to the statement of cash flows for the year ended December 31, 2010

There are no significant adjustments to the Credit Union's statement of cash flows reported in accordance with IFRS.

The Credit Union has modified the classification of certain items within the statement of cash flows in accordance with IFRS. Certain previous investing and financing activities presented under Canadian GAAP are now presented as operating activities, including the change in loans to owners and change in deposits from owners.

In addition, interest paid, interest received, income taxes paid and income taxes received were previously recorded as supplemental information to the statement of cash flows under Canadian GAAP. Under IFRS, these items are now included under operating activities in the statement of cash flows.

ceo/treasurer's report

Front and centre to the daily operations of Newfoundland and Labrador Credit Union (NLCU) is our belief in, and solid commitment to, our Vision and Mission. Every team member throughout our organization is aware of the importance of providing you, the owners of our credit union, with wise financial advice and to assisting you in achieving personal financial success. This level of commitment makes the NLCU difference and forms the framework of everything we do.

> "In 2011, NLCU continued to be recognized and rewarded by the business community for its human resources practices and overall success."

Last year, when we presented to employees the goals of our annual business plan, our theme—and our challenge—was to "*Take it to Wow!*" It is my honour and privilege to report to you on the many *wows* that NLCU achieved in 2011.

Growth and Financial Results

To put NLCU in perspective: there are 434 credit unions and *caisses populaires* in Canada (outside of Quebec) and as of the 2nd quarter 2011, NLCU was positioned as the 52nd largest credit union in the country, placing us in the top 12%. Regionally, we are the largest credit union in Atlantic Canada. We are governed by nine dedicated Board of Directors, and have 141 professional employees to serve your financial needs. In 2011, NLCU continued to be recognized and rewarded by the business community for its human resources practices and overall success. In addition, we received honourable mention from *Atlantic Business Magazine* in their first annual Corporate Social Responsibility Award.

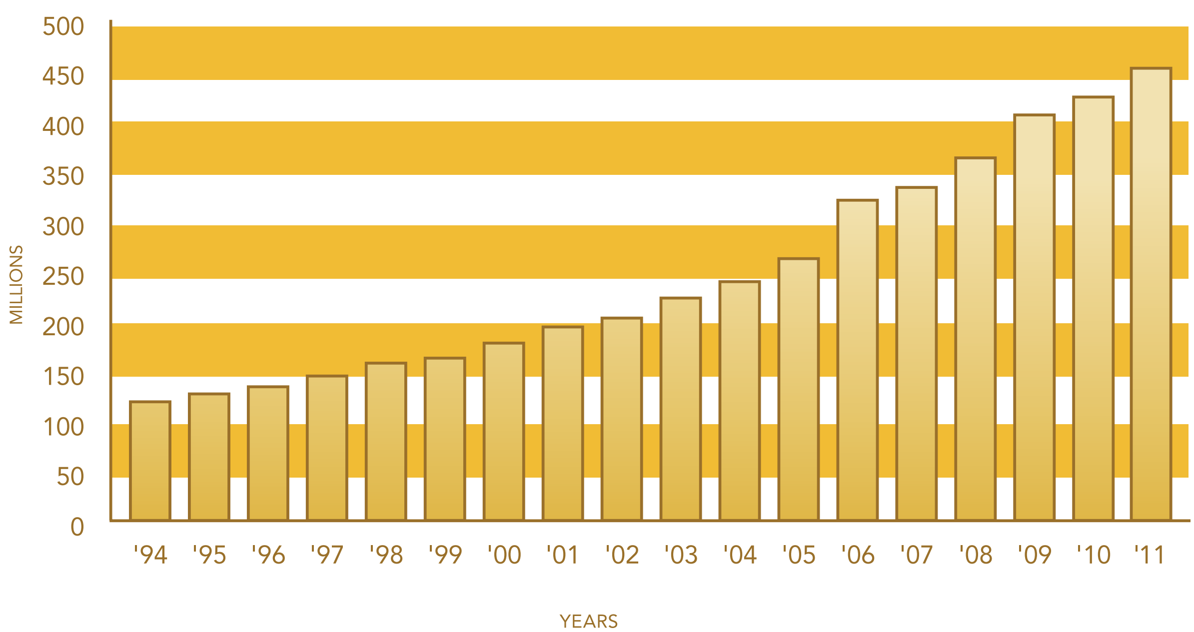
In 2011, Canadian companies were required to replace Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards. The audited financial statements and

CREDIT UNIONS EARN TOP CUSTOMER SERVICE RANKING AMONG ALL FINANCIAL INSTITUTIONS FOR THE SEVENTH CONSECUTIVE YEAR

For the seventh consecutive year, Canadians ranked credit unions first in overall *Customer Service and Excellence* among all financial institutions, surpassing all Canadian banks in Synovate Canada's annual Best Banking Awards. Credit unions also took sole honours in two other categories: *Values My Business* and *Branch Service Excellence*.

notes to the financial statements contained in the Annual Report and found online at nlcu.com reflect these new requirements. The financial highlights for 2011 report year-end assets at $465,291,695, an increase of $29,836,543 or 6.85% over 2010 figures. Loan portfolio balances at year end were $398,708,637. This represents a growth of $36,478,574 or 10.07%. Owners' deposit balances equaled $441,552,847, an increase of 6.50%. An owner dividend of 5% was once again paid on equity shares. When net earnings after tax totaling $1,546,335 was transferred to retained earnings, the balance totaled $16,171,350. At year end, the number of Newfoundlanders and Labradorians doing business with NLCU was 21,761, marking a *wow*-worthy increase of 849 new owners, or net owner growth of 4.06%. The dollar value of our owners' financial relationships increased too; year-end 2011 figures totaled $20,532 versus year-end 2010 assets per owner of $20,085.

ASSET GROWTH



Much of our success relies on the constructive feedback we receive from our owners. We know we cannot be successful in ensuring the products and services we deliver are meeting your needs unless we hear from you—and we do. In 2011, 450 owners responded to our Owner Satisfaction Survey, resulting in service satisfaction levels of 93%—another *wow*! While this measurement of service levels is an excellent resource, we thought it was time to take a closer look at your needs, at the quality and effectiveness of our service delivery, and at how we can take our relationship-based services to the next level. To do this, we engaged Dr. Jim Barnes, internationally renowned for his expertise in customer insight strategies, to work with NLCU so that we can, with your valuable input, discover how and what delivery channels to improve. We anticipate this project will conclude by mid-2012, after which we will action a strategy for positive changes that will help us to better help you.

> “In 2011, 450 owners responded to our Owner Satisfaction Survey, resulting in service satisfaction levels of 93%—another *wow*!”

NLCU undertook several other *wow* initiatives during the year to enhance current or provide new service or communication channels:

- We opened a new branch in Churchill Falls, renovated and expanded our premises in Stephenville, and began construction on a new building in Clarenville.
- Our Mount Pearl branch joined our Conception Bay South branch with Saturday openings.
- We maintained our traditional forms of communication, including our popular Teleservice, which answered more than 150,000 of your telephone calls in 2011.
- We ramped up our electronic communications to widen your media options and to keep you up-to-date quickly and conveniently. In the fall, we launched Facebook and Twitter sites and have been collecting email addresses.
- We focused on bringing you pertinent information for your wealth generation needs. In addition to numerous one-on-one consultations, our professional team presented at six NLTA Pre- Retirement Seminars, nine provincial Retirement Planning Seminars, two webinars, and several business "Lunch and Learns."

NLCU CHARITABLE FOUNDATION’S ANNUAL LUNCHEON

On December 2, 2011, NLCU hosted our Annual Charities Luncheon where recipients were present to accept their organizations' donations from the NLCU CFC. In 2011, through the efforts of the entire NLCU team as well as corporate and owner support, NLCU CFC collectively raised and disbursed approximately $93,800 to 90 different charities. Since the foundation was established in 2002, more than $500,000 has been donated and has made significant differences in our communities and the province we call home.

• Always cognizant of the ever-increasing need to ensure owner safety and security, we finalized the conversion of all debit cards to chip enabled cards, implemented increased authentication for login to online banking, and upgraded our computer servers.

Innovation

Credit unions have a long history as innovators in the financial services industry, creating products and services such as online banking, ATMs, daily interest savings accounts, and bi-weekly mortgage payments, to name a few. In 2011, we added yet another accomplishment to that distinguished line of innovation: NLCU became the first financial institution in Canada to directly sell life and death benefits from branches. Changes in provincial legislation in 2009 permitted this reality and after much structuring and planning, NLCU received its Life Insurance Broker Licence on December 6, 2011. This achievement allows us to provide you with the convenience of direct and comprehensive wealth management services.

Our affiliation with Memorial University's (MUN) Students In Free Enterprise continued to be fruitful. On behalf of NLCU, they created a new budgeting application for iPhone, Android, and Blackberry. This product launched at MUN campuses, the College of the North Atlantic, and high schools throughout the province. NLCU also put an innovative twist on our annual presence at MUN orientation, providing an educational booth that included the ability to open no-fee student chequing accounts and student lines of credit on site.

The Innovation Action Team (IAT) kept creative idea-making alive and well throughout the year by sending regular inspirations for the need to think innovatively and by presenting fun challenges for the same. The IAT served as a fantastic role model of innovation for our entire organization, winning the 2011 Innovation Award for their idea of holding an Annual Innovation Day.

Human Resources

In 2011, we were pleased to welcome to our management team Novalee Weir as Branch Manager, Owner Service, Water Street branch; Michelle Senior as Branch Manager, Owner Service, Churchill Falls branch; and Margie Beaton as Assistant Branch Manager, Owner

NLCU SPONSORS DR. TA LOEFFLER IN HER GOAL OF CLIMBING MOUNT VINSON

Dr. TA Loeffler is an adventurer, author and professional speaker from right here in St. John's, Newfoundland and Labrador. TA has set out on a mission of climbing Mount Everest and the rest of the Seven Summits, the highest peaks on each of the seven continents. Her latest adventure, Mount Vinson, is the highest peak on the continent of Antarctica standing at 16,050 feet.

Service, Gander branch. As well, we offer sincere congratulations to Yvonne Parsons and her team in Labrador City for winning the coveted 2011 Katherine Seymour Award for service excellence.

> "At year end, the number of Newfoundlanders and Labradorians doing business with NLCU was 21,761, marking a *wow*-worthy increase of 849 new owners"

Since our beginnings, education and training continue to be a major focus. We provided informative opportunities to support you in achieving your financial goals. We also provided upgrading and skill improvement opportunities for our employees, including orientation and product and service training for new employees, and ongoing coaching and compliancy training for all employees. In addition, we continued our "Weekly Product Reviews" to increase employee knowledge. Everyone on our management team completed computer skills training and numerous employees completed CUSource or other post-secondary courses towards their Fellowship in the Credit Union Institute of Canada. Others participated in NLCU's mentoring program or were recognized by their colleagues under the NLCU Achievers' Award.

Internal two-way communication with our team is extremely important and every effort is made to ensure employees have an opportunity to provide feedback. In February, Glenn Bolger, Chief Operating Officer, and I once again had the privilege of visiting all 12 branches during our annual Fireside Chats. We held monthly management meetings throughout the year and, in November, I welcomed the opportunity to meet with our Branch Managers in what has become an annual CEO/Branch Managers meeting. Our Employee Satisfaction Survey produced favourable results and insights, and our *Credit Notes* employee newsletter was produced regularly throughout the year.

NLCU does not exist and prosper in isolation. We are an active member of the communities and surrounding areas that we serve. As a socially responsible organization, we remain committed to contributing to the vibrancy of our province and its people. In addition to our Charitable

10TH ANNUAL ROD BENSON MEMORIAL GOLF TOURNAMENT

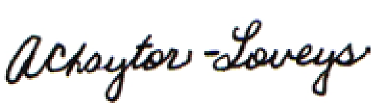
The 10th Annual Rod Benson Memorial Golf Tournament took place at Clovelly Golf Course on Wednesday August 31, 2011, raising approximately $50,000 for provincial charities. NLCU continued to participate as a Platinum sponsor. RONA and CUETS® Financial participated as Gold sponsors for the 10th year running, and for the 3rd year in a row the Co-operators Group has participated as a Silver sponsor. NLCU was also proud to announce the addition of SPARK Marketing as a Silver sponsor. The charity of choice was the Janeway Eye Clinic. The Janeway Eye Clinic brings ophthalmic services to approximately 10,000 children across the Province annually.

Foundation's support of our communities, our employee team volunteered in many roles, contributing more than 4,772 volunteer hours to worthy charities and non-profit groups throughout Newfoundland and Labrador. NLCU, as well, contributed approximately $148,000 in sponsorships and in-kind donations to various organizations affiliated with youth, education, entrepreneurship, and visionary leadership. Some of these initiatives included Junior Achievement, SIFE Memorial "Based in Business," NLOWE, Fresh Fish Award for Emerging Writers, and TA Loeffler's adventurous, motivational, and educational work. Finally, we continued to work with the City of St. John's to develop a framework for an affordable housing project.

> Our employee team contributed more than 4,772 volunteer hours to worthy charities and non-profit groups throughout Newfoundland and Labrador.

As I am sure you will agree, last year's results show that Newfoundland and Labrador Credit Union took it to *wow* in 2011, and we have every reason to be collectively proud. As we move forward into a new year and a new strategic plan, be assured that your financial well-being is at the core of everything we do. We look forward to stepping up to the exciting challenges and opportunities that lie ahead in 2012. From your entire team of professionals—Board of Directors and employees—please accept our sincere thanks.

Respectfully submitted,



Allison Chaytor-Loveys
Chief Executive Officer and Treasurer

NLCU RECEIVES HONOURABLE MENTION FOR CORPORATE SOCIAL RESPONSIBILITY

On November 9, 2011, NLCU received an honourable mention (equivalent to second place) from *Atlantic Business Magazine* for a Corporate Social Responsibility award in the Human Resources category. This award takes into consideration businesses throughout Atlantic Canada and recognizes significant initiatives to improve working lives, safety, diversity, and the general well being of employees.

award winners

Katherine Seymour Award

Michael W. Boland, President (Left) and Glenn Bolger, Chief Operating Officer (Far Right) of Newfoundland and Labrador Credit Union, present Yvonne Parsons (Centre) Branch Manager, Owner Service, Labrador City with the Katherine Seymour Award in recognition of service excellence.

Innovation Award

Michael W. Boland, President (Far Left) and Allison Chaytor-Loveys, Chief Executive Officer (Far Right) of Newfoundland and Labrador Credit Union, present the Co-Chairs of the Innovation Action Team, Roxanne Downey, Assistant Branch Manager, Owner Service, St. John's (Centre Left) and Heather Read, Income Tax and Accounting Consultant (Centre Right), with the Innovation Award, which recognizes employees that have generated and implemented innovative ideas and strategies.

Outstanding School And Community Involvement

Scholarship Winner

Winner of the Outstanding School and Community Involvement Scholarship in memory of past Director, Mr. Owen Grimes, Thomas Abbass of Mealy Mountain Collegiate, Happy Valley-Goose Bay.

Outstanding School And Community Involvement

Scholarship Winner

Winner of the Outstanding School and Community Involvement Scholarship, Emily Moores of Corner Brook Regional High School, Corner Brook. Presenting the cheque is Judy Abbott, Regional Director, Branch Sales and Service.

Brian F. McDonald

Scholarship Winner

Winner of the Brian F. McDonald Scholarship, Adam Thompson of O'Donel High School, Mount Pearl, the son of Dana Thompson, Assistant Branch Manager, Owner Service, St. John's. Presenting the cheque is Margaret Ann McDonald, wife of the late Brian McDonald.

NLCU charitable foundation corporation
2011 donees

On December 2, 2011, the NLCU Charitable Foundation Corporation distributed over $93,800 to 90 charities throughout the Province at the Annual Charities Luncheon. Since its inception in 2002, the NLCU CFC has donated over half a million dollars.

AIDS Committee of Newfoundland & Labrador

ALS Society of Newfoundland & Labrador

Alzheimer Society of Newfoundland and Labrador, Inc.

Association for New Canadians

Autism Society of Newfoundland and Labrador

Bay St. George Sick Children's Foundation Inc.

Bay St. George Special Olympics

Big Brothers Big Sisters of Eastern Newfoundland

Booth Memorial High School's Santa Booth Committee

Boys and Girls Club of St. John's

Bridges to Hope Inc.

Buckmasters Circle Community Centre

Canadian Cancer Society - NL Division

Canadian Diabetes Association - NL Division

Canadian Hard of Hearing Association Newfoundland and Labrador

Canadian Liver Foundation - Newfoundland Chapter

Canadian Red Cross - NL Region

Cara Transition House

Caribou Group of Rotary

Central Northeast Health Foundation

Children's Wish Foundation of Canada - NL Chapter

Choices for Youth

CNIB Newfoundland & Labrador

Community Food Sharing Association

Community Youth Network

Con Ba Su Area Girl Guides

Co-operative Development Foundation of Canada

Corduroy Brook Enhancement Association

Crohn's and Colitis Foundation of Canada

Daybreak Parent Child Centre

Dr. H. Bliss Murphy Cancer Care Foundation

Easter Seals Newfoundland and Labrador

Eating Disorder Foundation of Newfoundland and Labrador

Elks & Royal Purple Fund for Children

Epilepsy Newfoundland and Labrador

Exploits Valley SPCA

Forests without Borders

Foundation for the Rotary Club of St. John's

Gander Boys and Girls Club

Habitat for Humanity Newfoundland and Labrador

Health Care Foundation

Heart and Stroke Foundation of Newfoundland and Labrador

Iris Kirby House Foundation, Inc.

Janeway Children's Hospital Foundation

Juvenile Diabetes Research Foundation Canada - Atlantic Region Chapter

Kids Eat Smart Foundation

Kids Help Phone

Knights of Columbus

MADD Canada

Marguerite's Place

Mazol Shriners

Menihek High School Soup Kitchen

MS Society of Canada - Atlantic Division

Muscular Dystrophy - NL Chapter

Newfoundland & Labrador Association for Community Living

Newfoundland & Labrador Brain Injury Association

Newfoundland & Labrador Down Syndrome Society

Newfoundland and Labrador Prostate Cancer Support Groups

Opera on the Avalon

Parkinson Society Canada, Newfoundland and Labrador

Peter Barry Duff Memorial Park Commission

Prostate Cancer Canada

Quidi Vidi/Rennie's River Development Foundation

Rainbow Riders - St. John's Therapeutic Riding Association

RCA Foundation

School Lunch Association

Scouts Canada, Newfoundland & Labrador Council

Seniors' Resource Centre

Shallaway

Single Parent Association of Newfoundland

Society of St. Vincent de Paul

Stella Burry Community Services and Foundation

Stephenville Emergency Food Services

St. Kevin's Food Bank

Teachers on Wheels

The Arthritis Society NL Division

The Brother T.I. Murphy Learning Resource Centre

The Duke of Edinburgh's Award Programme - NL Divison

The Gathering Place Inc.

The Kidney Foundation of Canada - NL Branch Office

The Lung Association Newfoundland and Labrador

The Royal Canadian Legion - Grand Falls (NFLD No. 12) Branch Poppy Fund

The Salvation Army

Thomas Howe Forest Foundation Inc.

Tourette Syndrome Foundation of Canada NL

Toys for Joy

Trinity-Conception-Placentia Health Care Foundation

Vera Perlin Society

Victorian Order of Nurses - Meals on Wheels (St. John's)

Western Regional Hospital Foundation

10th Annual Rod Benson Memorial Golf Tournament

8th Annual Walk-A-Thon

our locations

240 Water Street
St. John's, NL A1C 1B7
754-2630 (Corporate Office)
722-5824 (Water Street Branch)

341 Freshwater Road
St. John's, NL A1B 1C4
754-2312

38 Main Street
Corner Brook, NL A2H 6Z7
634-5341

1 Pinsent Drive
Grand Falls-Windsor, NL A2A 2S8
489-9051

500 Vanier Avenue
Labrador Mall
Labrador City, NL A2V 2W7
944-7701

119 Columbus Drive
Carbonear, NL A1Y 1A6
596-5044

51 Commonwealth Avenue
Mount Pearl, NL A1N 1W7
747-9415

6 Roe Avenue
Gander, NL A1V 1W5
256-3537

320 Torbay Road
Fall River Plaza
St. John's, NL A1A 5B5
726-4013

120 Conception Bay Highway
Suite 107, Villa Nova Plaza
Conception Bay South, NL A1W 3A6
834-9520

10 Shoal Harbour Drive
Clarenville, NL A5A 2C4
466-4590

69 Main Street
Stephenville, NL A2N 1H9
643-2111

Town Centre, Ressigieu Drive
Churchill Falls, NL A0R 1A0
925-3594

Teleservice
1-800-563-3300

Automated Teleservice®
1-800-963-4848

Website: www.nlcu.com

MemberDirect® Online Banking
www.nlcu.com

MemberDirect® Mobile Banking
www.nlcu.com/m

our contacts

Board of Directors
Michael W. Boland, President* and Board Chairman
Raymond Piercey, 1st Vice President*
Damian Ryan, 2nd Vice President*
Daniel LaVallée*
Maureen Singleton*
Pat Collins
Allan Skanes
Raymond Hawco
Murray Loveless
Allison Chaytor-Loveys, CEO and Treasurer+
Glenn Bolger, COO and Corporate Secretary+
Kelly-Anne Meadus, Recording Secretary

**Executive Committee*
+Appointed

NLCU CFC Board of Directors
Allison Chaytor-Loveys, Chairman
Glenn Bolger, Vice Chairman
Elizabeth Duff, Treasurer
Shane Flight, Secretary
Raymond Piercey, Director - NLCU Representative
Raymond Hopkins, Director
Sherri Fogwill, Director

Management, Corporate Office
Allison Chaytor-Loveys, Chief Executive Officer
Glenn Bolger, Chief Operating Officer
Elizabeth Duff, Chief Financial Officer
Barbara Ivany, Executive Assistant
Shane Flight, Director, Information Systems
Kent Farrell, Director, Commercial Credit
Tony Young, Director, Wealth Management Services
Jim Mayo, Director, Accounting and Corporate Governance
Laurie Roberts, Director, Human Resources
Michelle McGrath, Regional Director, Branch Sales and Service (Eastern Region)
Judy Abbott, Regional Director, Branch Sales and Service (Western Region)
Shannon Goodyear, Director, Marketing and Communications
Jackie Borden, Manager, Risk and Internal Audit

Branch Managers, Owner Service
TBA, Freshwater Road, St. John's
Lyndon Combdon, Corner Brook
Lisa Loveridge, Grand Falls-Windsor
Yvonne Parsons, Labrador City
Pam Jenkins, Carbonear
Sheila Hynes-Brenton, Mount Pearl
Brian Beson, Gander
Fred Philpott, Torbay Road, St. John's
Bill Farrell, Conception Bay South
Shawn Loder, Clarenville
Mercedes Lafitte, Stephenville
Novalee Weir, Water Street, St. John's
Michelle Senior, Churchill Falls

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486-4958 (cell)
Peter Bishop
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our services

YOUR MONEY

CHEQUING SERVICES
Personal Chequing Accounts
MasterPlan™ Chequing Packages
Prime Account
U.S. Dollar Chequing Accounts
Student Chequing Accounts
Self-Serve Electronic Transaction Account Packages

SAVINGS
Plan 24® Account
Advantage
FAT CAT® Account
HEADSTART® Account
Monthly Savings Plan
Online Savings Account

MASTERCARD®
GLOBAL PAYMENT™ MasterCard®
Gold GLOBAL PAYMENT™ MasterCard®
CHOICE REWARDS® MasterCard® Points Program

ELECTRONIC SERVICES
Automated Teller Machines
INTERAC†/*Cirrus*® Network
INTERAC† Direct Payment
Automated Teleservice®
MemberDirect® Online Banking
Credential Direct®* Online Brokerage
eSwitch®
E-Statements
Mobile Banking
INTERAC® e-Transfers

ADDITIONAL SERVICES
Travellers' Cheques
Safety Deposit Boxes
Payroll Deduction/Direct Pay
Legal Witnessing
World Currency Centre
Night Depository
Bill Payment
Safekeeping
Teleservice
Grad Package

YOUR FINANCING

LOANS AND MORTGAGES
Personal Loans
Mortgage Loans
Energy-Efficient Mortgages
NLCU Student Loans & Education Lines of Credit
Graduate Vehicle Loan Rebate
Home Equity Loans
Personal Lines of Credit
Chequing Overdraft Protection
RRSP Loans and RRSP Lines of Credit

YOUR FUTURE

INVESTMENT PRODUCTS & SERVICES
Debentures
Term Deposit Receipts
Registered Retirement Savings Plans
Tax-Free Savings Accounts
Monthly Registered Retirement Savings Plans
Self-Directed Registered Retirement Savings Plans
Registered Retirement Income Funds
Registered Education Savings Plans
Mutual Funds* (available through Credential Asset Management Inc.)
S&P/TSX 60 Index Linked Term Deposits
Canada Savings Bonds
Registered Disability Savings Plans

INSURANCE
Credit Term Life Insurance
Credit Life and Disability Insurance
Mortgage Insurance (including job loss, disability and critical illness)
Travel Insurance
Home/Auto Insurance

FINANCIAL MANAGEMENT
Trust Services
Income Tax Preparation
Wealth Management
Financial Planning and Insurance Services

YOUR BUSINESS

COMMERCIAL SERVICES
Commercial Leasing through Concentra Financial
Corporate Accounts
Commercial Loans
Commercial Lines of Credit
Business MasterCard
Merchant MasterCard
Small Business Insurance
MEMBERPLAN™ Group Insurance
Income Tax Preparation
Member*Direct*® Business

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OPEN

CREDIT UNION
NEWFOUNDLAND AND LABRADOR