



ATLANTIC CENTRAL

# MEETING *book*

2011





# ATLANTIC CENTRAL

## Annual General Meeting

April 8-9, 2011

Westin Nova Scotian Hotel  
Halifax, Nova Scotia

**If found, please return to:**

NAME: \_\_\_\_\_

CREDIT UNION: \_\_\_\_\_

ADDRESS: \_\_\_\_\_

CITY: \_\_\_\_\_ PROV. \_\_\_\_\_ POSTAL CODE: \_\_\_\_\_



## **NOTICE OF ANNUAL GENERAL MEETING**

To: The Shareholders of Atlantic Central

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Shareholders of Atlantic Central will be held at The Westin Nova Scotian Hotel, 1181 Hollis Street, Halifax, Nova Scotia on **Saturday, April 9, 2011**.

The Official Opening will take place at 9:00 a.m. on Saturday, April 9, 2011 in the Commonwealth Room. Registration will begin on Thursday, April 7<sup>th</sup>, at 10:00 a.m. in the Commonwealth Foyer.

The purpose of the Annual Meeting is to:

1. Receive the Report of the Board of Directors and Auditors for the past fiscal year;
2. Consider Member Resolutions submitted on behalf of shareholders;
3. Appoint Grant Thornton, LLP, Chartered Accountants, as Auditors for 2011; and
4. Conduct such other business as may come before the meeting.

Each shareholder member of Atlantic Central is entitled to be represented at this forthcoming meeting. **Each credit union in Nova Scotia, Newfoundland and Labrador, New Brunswick and Prince Edward Island must ensure their delegate is registered with Atlantic Central by filing the appropriate credential card.** If you have any questions or changes to your Delegate, please contact Irene MacNeil at Atlantic Central.

DATED this 7<sup>th</sup> day of March, 2011,  
ON BEHALF OF THE BOARD OF DIRECTORS

---

Rick Parker, Corporate Secretary

PO Box 9200  
6074 Lady Hammond Road  
Halifax, NS B3K 5N3

Tel (902) 453-0680  
Fax (902) 455-2437  
Toll Free (800) 668-2879

663 Pinewood Road  
Riverview, NB  
E1B 5R6

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Fax (506) 857-9431  
Toll Free (800) 332-3320

281 University Avenue  
Charlottetown, PE  
C1A 4M3

Tel (902) 566-3350  
Fax (902) 368-3534

# Registration

## *Registration*

### 2011 Annual General Meeting Atlantic Central

#### ***Information & Registration***

The Annual General Meeting of Atlantic Central (previously known as Credit Union Central of Nova Scotia) is scheduled from Friday, April 8 to Saturday, April 9, 2011.

***Please register before March 25, 2011***

For more information contact:

Irene MacNeil

Atlantic Central

Phone: 902-454-3132

Fax: 902-455-2437

Email: icmacneil@atlanticcentral.ca

#### **Hotel**

##### ***Hotel Accommodation***

A block of rooms has been set aside at the Westin Nova Scotian Hotel for credit union managers, delegates and visitors. Call toll free at 1.877.993.7846 or directly at 496.8585 to make reservations and confirm bookings. The special conference rate of \$139 is in effect until March 18, 2011. Be sure to book early to ensure room availability.

***You must specify you are with the "Atlantic Central Annual Meeting" to get this preferred room rate.***

You may choose to book online by accessing the Star Groups website at:

**<http://www.starwoodmeeting.com/StarGroupsWeb/booking/reservation?id=1101207927&key=C5660>**

We encourage delegates to stay at the Westin and access the block of bedrooms for this meeting. If our block of bedrooms is not filled due to delegates staying elsewhere or due to late cancellations after March 18, 2010, we incur significant penalties and increased costs. If a bedroom is cancelled after March 18, 2011, the credit union will be responsible for the cost of the cancelled room.

It is also a good idea to reconfirm your booking prior to arriving to ensure all details are in place.

#### **Thursday**

##### ***NS Credit Union Managers Association Meeting***

9:00 AM – 12:00 PM – Harbour A/B Rooms

This meeting is open to all credit union managers in Nova Scotia. The agenda for this meeting will be circulated separately.

# Registration

## *Registration*

### ***NS-NL Credit Union Chairs Association Meeting***

9:00 AM – 12:00 PM – Atlantic Ballroom

The credit union chairs in Nova Scotia and Newfoundland & Labrador extend an invitation to the credit union chairs in Prince Edward Island and New Brunswick to attend their Association meeting. The agenda for this meeting will be circulated separately.

### ***Youth Forum***

9:00 AM – 4:30 PM - Commonwealth B Room

#### ***Building for Tomorrow***

The Annual Youth Forum is scheduled for Thursday, April 7, 2011. The Youth Forum is open to all credit unions in New Brunswick, Prince Edward Island, Newfoundland & Labrador, and Nova Scotia. According to the CUCNS Benchmark report (August 2010), only one-third of both Nova Scotia (33.8%) and Newfoundland & Labrador (31.6%) members with a deposit are under the age of 40. The focus of this forum is to work together to develop strategies that will strengthen relationships with this segment of our membership. Using a world café format, the participants at the forum will be:

- Sharing ideas of strategies that are currently working in credit unions today
- Identifying the needs of various age segments in the youth market
  1. The Young Savers (0-12)
  2. The Wonder Years (13-18)
  3. The Education Years (19-24)
  4. The Career & Family Years (25-40)
- Developing and recommending strategies for those age segments that will be shared with all credit unions after the forum.

Credit unions are encouraged to send youth representatives to the Annual General Meeting of Atlantic Central to help these young people not only obtain a better appreciation of the credit union system, but to provide leadership opportunities for them. We suggest that you identify employees, board directors and/or members between the ages of 18-35 years and sponsor them to attend. The Youth Forum is also a great opportunity to re-engage young adults you have sponsored to attend the Atlantic Cooperative Youth Leadership Seminars or Nova Scotia Cooperative Youth Alliance Camps in the past.

### ***Credit Unions/Credential Meeting***

1:00 PM – 2:45 PM – Harbour A/B Rooms

Information regarding this meeting will be sent out separately.

### ***Annual General Meeting – League Savings & Mortgage Company***

3:00 PM – 5:00 PM – Commonwealth A Room

The 2011 Annual General Meeting of League Savings & Mortgage Company will be held at the Westin Nova Scotian Hotel, Halifax, Nova Scotia on Thursday, April 7, 2011. The meeting is open to pre-registered Shareholders, visitors and invited guests. Attendees should check in at the registration and information desk to be signed in.

# Registration

## *Registration*

### ***Welcome Reception***

Please join us Thursday evening from 5:00 PM – 6:30 PM in the Atlantic Ballroom for a Welcome Reception.

## **Friday**

### ***Workshops***

9:00 AM – 4:00 PM

See information under Workshop Tab in this booklet.

### ***Regional Meeting for New Brunswick Credit Union Delegates***

4:15 PM Lunenburg Room

### ***Annual Meeting Reception and Banquet***

6:30 PM – 7:00 pm	Reception (cash bar)	Commonwealth Foyer
7:00 PM	Dinner	Commonwealth Room

The Annual Coady Award and Retiring Director presentations will follow the dinner.

## **Saturday**

### ***Annual General Meeting – Atlantic Central***

9:00 AM – 1:00 PM

The 2011 Annual General Meeting of Atlantic Central (previously known as Credit Union Central of Nova Scotia) will be held at the Westin Nova Scotian Hotel, Halifax NS on Saturday, April 9, 2011. This meeting is open to pre registered managers, delegates, visitors and invited guests.

# Registration Form

## Atlantic Central – Annual General Meeting & Banquet April 8-9, 2011

**The Bylaws of Atlantic Central provide for proportionate voting by Delegates based on the previous year’s assets of each credit union.**

**Please confirm your credit union’s assets based on the 2010 year-end audited statement:** \_\_\_\_\_

**Submission Deadline:** March 25, 2011

Please complete this form and return to:

Tena Boutilier – Atlantic Central

**Fax:** 902-493-3935 or **Email:** tboutilier@atlanticcentral.ca

Credit Union or Organization: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

*Please note:*

1. There is a separate registration form (located in the LSM Meeting Booklet) for the LSM Annual General Meeting.
2. There is a separate registration form for the Youth Forum (immediately behind this form)

	Name	Reception (Thursday Evening)	Lunch (Friday)	Banquet (# of people attending)
1				
2				
3				
4				
5				
6				
7				
8				
	Total Attendance			
	Amount per person	____@ \$20 ea.	____@ \$20 ea.	____@ \$50 ea.
	<b>TOTAL AMOUNT DUE</b>	<b>= \$</b>	<b>= \$</b>	<b>= \$</b>
				<b>TOTAL DUE</b>
				<b>\$</b>

Credit unions will be debited for the total cost after the AGM

Affiliated organizations - please forward cheque payable to Atlantic Central

*If there are any dietary restrictions for your attendees, please contact Tena Boutilier.*

# Registration Form

## Youth Forum

*April 7, 2011*

**Submission Deadline:** March 25, 2011

Please complete this form and return to:

Tena Boutilier – Atlantic Central

**Fax:** 902-493-3935 or **Email:** [tboutilier@atlanticcentral.ca](mailto:tboutilier@atlanticcentral.ca)

Credit Union or Organization: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

**If Youth Forum participants are also planning to attend the Atlantic Central Annual General Meeting please include them when completing the registration for your credit union.**

The Youth Forum is open to youth between the ages of 18-35 years from all credit unions in New Brunswick, Prince Edward Island, Newfoundland & Labrador and Nova Scotia.

The focus of this forum is to work together to develop strategies that will strengthen relationships with the various youth segments of our membership.

	Name	Email Address	Position (Employee, Volunteer, Other (Member))
1			
2			
3			
4			

Credit unions are encouraged to send youth representatives to the Annual General Meeting of Atlantic Central to help these young people not only obtain a better appreciation of the credit union system, but to provide leadership opportunities for them.

# 2011 Annual General Meeting

## *2011 Annual General Meeting*

### Meeting Schedule

#### ***Thursday, April 7, 2011***

10:00 AM – 7:00 PM	Atlantic Central/LSM Registration Desk Open	Commonwealth Foyer
9:00 AM – 4:30 PM	Youth Forum	Commonwealth B
9:00 AM – 12:00 PM	NS Credit Union Managers Association Meeting	Harbour A/B
9:00 AM – 12:00 PM	NS-NL Credit Union Chairs Association Meeting	Atlantic Ballroom
1:00 PM - 2:45 PM	Credit Unions/Credential Meeting	Harbour A/B
3:00 PM – 5:00 PM	LSM AGM	Commonwealth A
5:00 PM – 5:30 PM	LSM Board Reorganization Meeting	Maritime Room
5:00 PM – 6:30 PM	Reception	Atlantic Ballroom

#### ***Friday, April 8, 2011***

8:00 AM – 4:00 PM	Atlantic Central/LSM Registration Desk Open	Commonwealth Foyer
9:00 AM – 4:00 PM	Introductions & Workshops	Commonwealth A/B
12:00 PM – 1:00 PM	Luncheon - Managers, Delegates & Visitors	Atlantic Ballroom
5:00 PM – 5:30 PM	Atlantic Central Inaugural Board Meeting	Crown Suite
6:15 PM – 7:00 PM	Atlantic Central Annual Meeting Reception	Commonwealth Foyer
7:00 PM – 9:00 PM	Annual Meeting Banquet	Commonwealth A/B

#### ***Saturday, April 9, 2011***

9:00 AM	Atlantic Central AGM	Commonwealth A/B
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#### ***Meeting Rooms***

Located on 2nd level of the Hotel  
Are accessible by elevators  
Are subject to change

***When arriving at the Registration Desk,  
please refer to the Agenda contained in your  
Registration Folder to reconfirm agenda and meeting locations.***

# Workshops

## Workshops

**Friday, April 8**

**9:00 – 10:30**

***Introduction To Atlantic Central and its Members (Commonwealth A-B)***

Each credit union will be asked to briefly introduce themselves. You will be hearing more on this from the Atlantic Central Communications Department.

**11:00 – 12:00**

***Current Economic and Demographic Trends – Challenges and Opportunities (Commonwealth A-B)***

A plenary session to provide insight into the Atlantic economy and trends affecting credit unions and our communities.

**12:00 – 1:00**

***Lunch (Atlantic Ballroom)***

**1:00 – 2:15**

***Option A:***

***Key Performance Indicators (Commonwealth A-B)***

The NS-NL Credit Union Leaders Forum held in 2009 identified the need to develop a common slate of benchmarks to measure credit union performance. A working group will share their recommendations. Credit union Chairs, CEOs and General Managers are encouraged to attend this session.

**OR**

***Option B:***

***Corporate Social Responsibility (Harbour A-B)***

Credit Union Central of Canada has developed an implementation guide and tools to assist credit unions in corporate social responsibility. The working group will share this information. This session is open to everyone.

**2:15 – 2:45**

***Health Break (Atlantic Mezzanine)***

**2:45 – 4:00**

***The 2011 Mortgage Market (Harbour A-B)***

Credit unions can expect increasing challenges competing in the mortgage market due, in part, to recent changes in the parameters for mortgage insurance in Canada. This workshop is intended for CEOs and Managers to discuss the current environment and explore opportunities to address these challenges.

***Board Evaluation and Director Competency Framework (Lunenburg Room)***

It is important for credit union boards and individual directors to assess their performance and identify opportunities for education and training. The evaluation approach developed by the Atlantic Central and League Savings & Mortgage will be shared for use in credit unions.

***Business Continuity Planning (Commonwealth A)***

BCP – What is it really?

Hurricanes, pandemics, break-ins, floods: there are many things beyond your control that can disrupt the operation of your credit union. Often preparation can mitigate the disruption.

Atlantic Central has worked with NS CUDIC and NS credit unions to develop tools and templates for BCP in credit unions. During this interactive hour, directors will have an opportunity to see how these tools can be utilized in your credit union's operations. Atlantic Central's own BCP is a two-time award winner, recognized by the national Disaster Recovery Institute.



ATLANTIC CENTRAL

**77<sup>th</sup> Annual General Meeting – 2011**  
**Atlantic Central**

(previously known as Credit Union Central of Nova Scotia)

<b>Fri., April 08<sup>th</sup>:</b>		<b>Meeting Room</b>
8:00 am – 4:00 pm	Registration Desk: Atlantic Central AGM	Commonwealth Foyer
9:00 am – 4:00 pm	<b>Atlantic Central Annual Meeting:</b> -- Workshops (refer to “Workshops” tab in meeting booklet)	(refer to “Workshops” tab in meeting booklet)
12:00 pm – 1:00 pm	Luncheon	Atlantic Ballroom
<b>Sat., April 09<sup>th</sup>:</b>		<b>Meeting Room</b>
8:00 am – 8:45 am	Registration Desk: Atlantic Central AGM	Commonwealth Foyer
9:00 am	<b>Atlantic Central Annual Meeting:</b> -- O Canada & Prayer of St. Francis -- One Minute of Silence for Deceased -- Greetings from the Chair -- Interim Report of Corporate Secretary -- Approval of Agenda -- Approval of 2010 AGM Minutes & SAM Minutes -- Welcome – Special Guests  <i>Presentation of Reports:</i> -- Chair’s Report -- President & CEO’s Report -- Tabling of Auditor’s Report -- Review of Financial Statements -- Office of the Ombudsperson Report	Commonwealth A-B

Sat., April 09th:		Meeting Room
	<p><i>Member Proposals / Special Resolutions</i></p> <p><i>Presentations:</i></p> <ul style="list-style-type: none"> <li>-- Superintendent of Credit Unions Presentation</li> <li>-- NS CUDIC Presentation</li> <li>-- Youth Forum Update</li> </ul> <p><i>Affiliate Organizations Presentations</i></p> <p><i>New Business:</i></p> <ul style="list-style-type: none"> <li>-- Appointment of Auditors</li> <li>-- Date for 2012 AGM</li> <li>-- Any other New Business</li> <li>-- Adjournment</li> </ul>	



**MINUTES – SEVENTY-SIXTH ANNUAL MEETING**  
**April 16-17, 2010**

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**The Seventy-Sixth Annual Meeting of Credit Union Central of Nova Scotia began at 9:00 a.m. on Friday, April 16, 2010, in the Commonwealth Room, the Westin Nova Scotian, Halifax, Nova Scotia.**

**CALL TO ORDER**

The Seventy-Sixth Annual Meeting of Credit Union Central of Nova Scotia was called to order by the Chair, Dave MacLean, in the Commonwealth Room, The Westin Nova Scotian, Halifax, Nova Scotia. Chair MacLean reported that the focus of today's session will be on workshops and presentations and the formal business will take place on Saturday, April 17, 2010.

**APPOINTMENT OF PARLIAMENTARIAN AND SCRUTINEER**

Chair MacLean reported that Victoria Mainprize will be Parliamentarian throughout the proceedings, and Don Noyes will be Chief Scrutineer.

**CORPORATE SECRETARY AND RECORDING SECRETARY**

Chair MacLean reported that Rick Parker is the Corporate Secretary and Irene MacNeil is the Recording Secretary for this meeting.

**RULES OF ORDER & VOTING**

Chair MacLean reported that the By-laws of CUCNS provide that the Rules of Order for all meetings shall be based upon Robert's Rules of Order; except in instances where specific procedures for meetings are provided in the By-laws.

For previous meetings, Central also included a two-page summary entitled "Credit Union Central of Nova Scotia Rules of Order" in the meeting materials. These Rules do not completely align with the provisions of Robert's Rules of Order and the By-laws.

**MOTION:**     **MOVED** by Mr. Hamlin, Credit Union Atlantic, **SECONDED** by Mr. Lefort, Acadian Credit Union that the Credit Union Central of Nova Scotia Rules of Order previously included in the meeting materials be rescinded and that the provisions of Robert's Rules of Order continue to apply to all meetings, unless otherwise set out in the By-laws. **CARRIED**

Chair MacLean reported that the Rules of Order are Roberts Rules of Order and the method of voting will be by display of voting cards contained in the Registration kits (green cards for “Yes” and red cards for “No”). In addition, special voting cards have been provided to the delegates for voting on specific resolutions.

For the first time, we are also using proxy voting. For those delegates who are carrying proxy votes, they have been issued voting cards for the proxy as well.

### **PROOF OF PROPER CALL TO ORDER**

Mr. Parker reported that our governing legislation requires that the notice be sent out at least 21 days prior to the meeting and it was dispatched to the credit unions on March 10, 2010, well within the required timeframe. As of 9:00 a.m., there were:

- 35 credit unions represented by 100 delegates in person and 21 delegates by proxy, 12 alternates
- 78 visitors
- **211 Total Attendance**

Mr. Parker declared that a quorum was present and the delegates officially seated.

### **APPROVAL OF AGENDA**

The Chair wished to be granted the discretion to change the order of the Agenda if necessary.

MOTION:     MOVED by Mrs. Gouthro, Dominion Credit Union, SECONDED by Mrs. Morrison, Glace Bay Central Credit Union, that the agenda be approved and that the Chair have the discretion to change the order of the Agenda if necessary. CARRIED

### **PRESENTATIONS**

The following presentations were held for the remainder of the day:

- IFRS Presentation (Sharon Arnold - Craig Weigel)
- Superintendent of Credit Unions Presentation (Douglas Murphy)
- CUDIC Presentation (Rod Munroe-Vernon MacNeill)
- Key Performance Indicators Presentation (Steve Scanlan)
- Back Office Services Presentation (Kevin Bekkers)
- Credit Union Central of Canada (Dave Phillips)

- Central1 (Jack Smit)
- Canadian Cooperative Association (Jim Johnson)
- Silver Economy Summit (Chantal Pelham-Edwards)

The meeting recessed at 4:00 pm and reconvened at 9:00 am on Saturday, April 17, 2010.

### **OPENING CEREMONY**

The Annual General Meeting opened with “O Canada” and the official credit union prayer, “The Prayer of St. Francis of Assisi”, with Wendy Blanchard as the pianist/soloist.

### **GREETINGS FROM THE CHAIR**

Mr. Dave MacLean, Chair, on behalf of the Board of Directors, welcomed the delegates and visitors to the Seventy-Sixth Annual Meeting of Credit Union Central of Nova Scotia. Chair MacLean then called upon Mr. Raymond Surette, Director, to offer greetings in the French language to the delegates and visitors in attendance.

### **RECOGNITION OF DECEASED MEMBERS**

The Chair called for a minute of silence to honour the memory of former Directors, Board members and employees from the Credit Union System.

### **GREETINGS FROM HALIFAX REGIONAL MUNICIPALITY**

Chair Dave MacLean introduced and welcomed Jerry Blumenthal representing District 11 (Halifax North End), Halifax Regional Municipality. Mr. Blumenthal brought greetings from the Halifax Regional Municipality, and extended best wishes for a successful Annual Meeting.

### **APPOINTMENT OF PARLIAMENTARIAN AND SCRUTINEER**

Chair MacLean reported that Victoria Mainprize will be Parliamentarian throughout the proceedings, and Don Noyes will be Chief Scrutineer.

### **CORPORATE SECRETARY AND RECORDING SECRETARY**

Chair MacLean reported that Rick Parker is the Corporate Secretary and Irene MacNeil is the Recording Secretary for this meeting.

### **RULES OF ORDER & VOTING**

Chair MacLean reported that the By-laws of CUCNS provide that the Rules of Order for all meetings shall be based upon Robert's Rules of Order; except in instances where specific procedures for meetings are provided in the By-laws.

the method of voting will be by display of voting cards contained in the Registration kits (green cards for "Yes" and red cards for "No"). In addition, special voting cards have been provided to the delegates for voting on specific resolutions.

For the first time, we are also using proxy voting. For those delegates who are carrying proxy votes, they have been issued voting cards for the proxy as well.

### **UPDATE ON REGISTRATION**

Mr. Parker reported that our governing legislation requires that the notice be sent out at least 21 days prior to the meeting and it was dispatched to the credit unions on March 10, 2010, well within the required timeframe. As of 9:00 a.m., there were:

- 35 credit unions represented by 102 delegates in person and 26 delegates by proxy, 12 alternates
- 104 visitors
- **244 Total Attendance**

Mr. Parker declared that a quorum was present and the delegates officially seated.

### **APPROVAL OF AGENDA**

The Chair wished to be granted the discretion to change the order of the Agenda if necessary.

MOTION: MOVED by Mr. Scanlan, iNova Credit Union, SECONDED by Mr. Shea, Heritage Credit Union, that the agenda be approved and that the Chair have the discretion to change the order of the Agenda if necessary.  
CARRIED

**MINUTES OF THE 2009 ANNUAL MEETING**

MOTION: MOVED by Mr. Scanlan, iNova Credit Union, SECONDED by Mr. Bekkers, Bergengren Credit Union that the Minutes of the 2009 Annual Meeting held on April 24-25, 2009 be approved. CARRIED

**MINUTES OF THE 2009 SPECIAL GENERAL MEETING**

MOTION: MOVED by Mr. LeBlanc, Caisse populaire de Clare, SECONDED by Mr. Hamlin, Credit Union Atlantic, that the Minutes of the 2009 Special General Meeting held on October 29, 2009 be approved. CARRIED

**BUSINESS ARISING FROM THE MINUTES**

There was no business arising from the Minutes.

**INTRODUCTION OF SPECIAL GUESTS**

At this point in the meeting, Chair MacLean introduced the following persons:

Bill Langthorne, Credit Union Deposit Guarantee Corporation, NL  
Vernon MacNeill, CEO, CUDIC  
Roddie Munroe, Chair of the Board, CUDIC  
Bobbie McNutt, Chair of the Board, Credit Union Central of New Brunswick  
Nick Wight, CEO, Credit Union Central of Prince Edward Island  
Connie Doucette, Chair of the Board, Credit Union Central of Prince Edward Island  
Norm Klatt, Concentra Financial  
Bobby McVeigh, Concentra Financial  
Doug Murphy, Superintendent of Credit Unions  
Mirren Harris, CUSOURCE  
Brian Gaudet, The Cooperators  
Doug Wright, The Cooperators  
Father JJ MacDonald, Former Chair, Credit Union Central of NS  
Gary Piccott, Credential Financial  
Carol Hunter, Canadian Cooperative Association  
Jamie Evans, CUETS  
Charles Milne, Central1  
Jack Smit, Central1  
Dave Power, CUMIS

Marinus VandeSande, Nova Scotia Cooperative Council  
Steve Mills, League Data  
Tom Smith, NS CUDIC  
Joseph Kennedy, NS CUDIC  
Camille Maillet, NS CUDIC

Chair MacLean introduced the members of the Board of Directors, Credit Union Central of Nova Scotia.

### **CHAIR'S REPORT**

Chair MacLean reported that 2009 was a benchmark year for Credit Union Central of Nova Scotia as it celebrated 75 years of service to credit unions. The Board of Directors has been working closely with the Management Team of Central and with credit unions across the system in assessing threats and opportunities as we contemplate our future. The Board has been guiding the evolution of our Central to the new Atlantic Central. Directors from CUCNS joined with counterparts in NB and PEI to create the Atlantic Central Steering Committee. Regular meetings were held throughout 2009 to discuss the requirements for creating a regional central. Deliberations continue with the goal of having a Definitive Agreement in place within the next few weeks and to close the transaction to form an Atlantic Central at December 31, 2010.

As we finalize the details of our new partnership, we have been closely following similar initiatives: the evolution of the Prairie Central comprised of the Centrals from Manitoba, Saskatchewan and Alberta. Central1 which is made up of the credit union systems in British Columbia and most of Ontario has been formally merged but some of the operational details are still being refined.

We are pleased to report that combined credit union assets grew to more than \$2Billion in Nova Scotia and Newfoundland and Labrador. There are 41 credit unions in both provinces providing wise financial guidance and empowering 208,000 members to take ownership over their financial future.

Central encouraged a number of financial discussions among credit union boards and management, including the well-attended Credit Union Executive Roundtable last August. The objective of this meeting was to gain a better understanding of the specific challenges facing credit unions within our region and to discuss priorities and strategies which would strengthen our credit union network.

Credit unions in Nova Scotia and Newfoundland and Labrador continue to look at ways to increase their efficiency or breadth of service through amalgamations and mergers. They can count on specialized resources at Central to help them with the process. Whether its human resources, financial analysis or general project management, Central employees are available to help.

There is a delicate balance between competing with banks and remaining true to our cooperative principles. We must ensure we can optimize our offering of products and services to our member-owners at a competitive price.

Social networking is taking on a new importance in the country. There are many small businesses that have discovered the potential for effectively using the various social networking channels to attract consumers and launch new products and services. Social networking provides a template for a renewed approach to attract and engage our customer-owners.

We are delighted to be able to share with our credit unions the rewards of our collective efforts in the form of generous rebates, distributions and special dividends.

In closing, Chair MacLean indicated that this Annual General Meeting marks the conclusion of his service as Board Chair and member of the Board of Credit Union Central as he has reached his nine years of service on the Board. He wished to thank the members of the Board for an unforgettable opportunity to work with talented and committed individuals. He also wished to extend a special note of thanks to all employees of Central and congratulated Bernie O'Neil and his Management Team for providing strong leadership to our credit unions.

Chair MacLean called upon Bernie O'Neil, President & CEO, to present his report to the delegates.

### **PRESIDENT & CHIEF EXECUTIVE OFFICER'S REPORT**

Mr. Bernie O'Neil, President & Chief Executive Officer, highlighted his report to the delegates, a copy of which is contained in the Annual Report booklet.

Mr. O'Neil reported that the Mission Statement of Credit Union Central is: *Through our leadership and the excellence of our people, products and services, we support credit unions in becoming the financial institution of choice.* The Mission Statement is what guides us and what we measure against for the kinds of activities that we engage in.

Mr. O’Neil reported that 2009 was an exciting year for Central and credit unions. We went into the year with considerable trepidation and major concerns as to how we might end up in 2009, given the condition of the economy and the kinds of challenges we were facing. At the Central, up to the middle of the year, we were concerned about our ability to meet budget let alone exceed budget. The second half of the year was much more successful for Central and many of our credit unions. The rebates from Central, LSM, the special distribution relating to the sale of CUMIS shares and the rebates from League Data provided our credit unions with a considerable amount of income.

Our service to credit unions is exemplified by the satisfaction survey which is important to us – identifying areas in which we can improve and build a stronger relationship. Our satisfaction survey achieved a rating of 82.9% and the perceived service quality for Central was rated at 80% in the combined categories of excellent and very good.

We engaged in some activities on a regional basis. In our consulting and support division, we facilitated amalgamations in NS and NL and also in NB and recently received a request from PEI to facilitate an amalgamation in that province. Our policy and procedures group operate on an Atlantic basis and NB and PEI along with CUDIC contribute to the costs of this particular group. We also, on a regional basis, coordinate many of the activities of the risk management area and have a close relationship with all credit unions in the Atlantic. Both Central and LSM were recognized for business continuity planning and received a national award.

#### *Atlantic Central*

Atlantic Central is one of the primary activities for the past 18 to 24 months and it is a major initiative for the remainder of 2010. We have done considerable work in the area of projects and efforts since the signing of the Memorandum of Understanding and Business Plan. The status of the Definitive Agreement is that we expect it will be signed over the next couple of weeks. There are some components in the DA that we have to review relating to the financial transaction itself, we have been receiving accounting and legal advice and we have to determine a method and process to value the assets and liabilities that NS Central will be purchasing and assuming on behalf of the Atlantic Central. We had an original closing date of June 30, 2010 which we will not be achieving. Our revised closing date is December 31, 2010 or January 1, 2011 whichever is the appropriate date for IFRS. Legislative amendments are being discussed in each of our provinces. We have strong support from all the provincial governments to pass the amendments required to achieve this objective. A meeting of the superintendents and regulators in each province is scheduled next week to discuss the amendments required in each province, and to make everyone aware of the kinds of

amendments that we think are necessary for CUCNS to be transitioned into an Atlantic Central. Some of the outstanding issues relate to: valuation, understanding of the accounting transaction at the Central level, impact on credit unions re share requirements and reserve requirements.

There are 12 directors on the Board of Atlantic Central – 6 from NS, 2 from NL, 2 from NB and 2 from PEI. The Interim Board will be operational in May until December 2010. The Interim Board will transition to the Inaugural Board on Closing, from January 1, 2011 to April, 2012. Therefore, the first Annual General Meeting of Atlantic Central will be in 2012. NS Central Board was required to appoint directors to represent NS and NL on both the Interim and Inaugural Boards. The appointments are:

- From NS: Kevin MacAdam, Mike MacIsaac, Dave MacLean, Jim Johnson, Ray Surette
- From NL: Doug Dewling, Paul Newman

At the AGM in 2012, the elections will take place. There will be six in NS elected by credit unions through the peer groupings. The two directors in NL will be elected at large by the entire credit union group in that province.

#### *Initiatives6*

Initiatives6 wound up in 2009. Under *Member & System Development*, we developed and adopted a binding system decision-making model; expanded service delivery and support to NL credit unions. Under *Relationship Management*, we developed a Customer Relationship Management Map and detailed support manual; developed and piloted a culture assessment tool; delivered a Relationship Management Forum. Under *Products & Services*, we adopted Phase I of Standard Core Products; some credit unions collaborated and adopted standard pricing, developed cost impact analysis tools. Under *Youth*, we produced bi-lingual Financial Literacy guide aimed at high schools, half of the schools participating requested presentations from credit unions, produced teachers guides, delivered an annual Youth Forum. Under *Human Resources*, developed comprehensive HR programs, completed HR audits in 29 credit unions. Under *Financial Planning*, 26 of 35 credit unions offer financial planning services.

Mr. O'Neil wished to thank the Board of Central for their guidance, support, wisdom and contribution. He noted that the Directors always have the interest of credit unions first and foremost in their minds. Mr. O'Neil also thanked the Management and Staff for their contribution and commitment to the credit unions and their customer-owners.

### **TABLING OF THE AUDITOR’S REPORT**

Mr. Michael McDonald, Grant Thornton, read the Auditor’s Opinion on the 2009 Consolidated Financial Statements to the delegates as contained in the Annual Report booklet, a copy of which is attached to and forms part of these Minutes. He congratulated the Board and Management of Credit Union Central and the membership on the 2009 financial results.

Ms. Sharon Arnold, Vice-President, Finance, highlighted the Consolidated Statement of Earnings and Retained Earnings, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flow as at December 31, 2009.

It would be certainly be an understatement to say, that from a financial perspective, 2009 turned out much better than expected. During the first half of the year, difficult economic conditions, coupled with historic low interest rates, presented significant financial challenges for Central and credit unions alike. At mid-year, profitability at the Central and credit unions was quite low, and the outlook for 2009 was not encouraging. However, the second half of 2009 saw a significant turnaround for both Central and credit unions.

On a consolidated basis, 2009 proved to be a record year for Central and LSM, returning 9 million dollars to credit unions by way of rebates, dividends and other distributions.

On a consolidated basis, Central had net financial margin of \$14.8 million which was \$1 million more than last year. Other financial income, which consists of mortgage payout fees, more than doubled in 2009. Other income also increased in 2009. Most notably was the gain on the sale of CUMIS shares of \$1.7 million.

Expenses decreased in 2009 by \$430,000. Because of the economic challenges we were facing early in the year, Central implemented stringent cost control measures, including no increases to job rates in 2009. Also, Central’s 2008 expenses included a one-time cost of \$500,000 related to the Clearing project and \$300,000 was paid to the Coady Institute. In 2009, Central fulfilled the remainder of its \$500,000 commitment to the Coady Institute. 2009 expenses also include \$114,000 related to the formation of Atlantic Central. The year 2009 also saw the wind-down of the Initiatives.

The notes to the financial statements include important information regarding the financial statements. Note disclosure will become even more significant under IFRS. The notes contain explanations regarding accounting policies, risk management, related

party transactions, commitments, and other pertinent financial information.

For Central, having adequate equity and liquidity are critical to our existence. In 2009 we met our targets in these areas. In 2003 an Equity Task Force recommended and delegates approved equity targets for Central in addition to those required by regulators. Central's target is to maintain 8% equity, split 1.7% in retained earnings and 6.3% in share capital. We do not include accumulated other comprehensive income in these equity targets.

We also met all of the regulatory, contractual and operating requirements for liquidity throughout the year. Liquidity will continue to be a key area of focus in 2010 due to increased focus by the regulators and changes taking place within the credit union system nationally.

In 2009 we achieved our budget – most notably we paid a 3% dividend and returned over \$2 million to credit unions in the form of liquidity and service charge rebates. As mentioned previously, we also paid a special dividend as a result of the gain on sale of the CUMIS shares.

As we look to 2010, we expect to see interest rates rise beginning near mid-year although opinions vary as to exactly how fast and how far they will go. We are already seeing signs that short-term rates will rise more than long-term rates. While we are seeing some signs of economic recovery, it will be a long road ahead. With the Canadian dollar expected to rise above the US dollar, export dependent industries may struggle.

We are required under provincial legislation to disclose information including remuneration and expenses paid to Directors and details of loans to Directors. The information is as follows:

Remuneration Paid:           \$57,500  
Expense Reimbursement: \$132,041  
No loans to officers or Directors at year end 2009.

**MOTION:**    **MOVED** by Mr. Scanlan, iNova Credit Union, **SECONDED** by Mr. Shea, Heritage Credit Union that the Chair's Report, the President & CEO's Report, the Auditor's Report, and the report on the review of the Financial Statements be accepted. **CARRIED**

### **LENDING SERVICES REPORT**

Mr. O'Neil reported that 309 applications were received from 26 credit unions (including 11 applications received from two Newfoundland & Labrador credit unions and 2 applications received from CUCNB for adjudication) during 2009 compared to 355 in 2008, a decrease of 12%. In addition, 276 reviews were received. The Management Credit Committee held six (6) meetings and the System Credit Committee met seven (7) times. In total, \$107.4 Million was approved, with \$50.5 Million being new funds.

#### **System Credit Committee Report**

Mr. O'Neil reported that 5 loans were granted in 2008 -- \$125,000 to credit unions; \$0 to other and \$3,946,500 MM in syndicated loans for a total of \$4,071,500. The number of loans outstanding at December 31, 2008: 46 loans to credit unions; 3 loans to co-ops; 0 coop mortgage loans, 14 syndicated loans and 2 other loans. The grand total stands at \$32,254,790.

### **REPORT – OFFICE OF THE OMBUDSPERSON FOR NS CREDIT UNIONS**

Mr. Doug Dewling, Chair, Audit, Risk and Conduct Review Committee reported that the report contained in the Annual General Meeting package was submitted by Clarence Landry, Ombudsperson who filed his report with the Central Audit, Risk and Conduct Review Committee.

Four complaints were adjudicated by the Ombudsperson during the year.

MOTION: MOVED by Mrs. Robinson, iNova Credit Union, SECONDED by Mr. LeBlanc, Caisse populaire de Clare, that the Lending Services Report, the System Credit Committee Report and Report from the Office of the Ombudsperson for NS Credit Unions be accepted. CARRIED

### **SPECIAL RESOLUTIONS**

#### *Schedule A – Unlimited Director Terms*

Chair MacLean called for a Mover and Seconder for the Special Resolution to get it on the floor and noted that two-thirds majority of the votes cast was required in order for the Resolution to be approved.

MOTION: MOVED by Mr. Bekkers, Bergengren Credit Union, SECONDED by Mr. Roberts, Hamilton Sound Credit Union, to approve the Special Resolution of Shareholders of Credit Union Central of Nova Scotia to amend the By-laws to allow for unlimited Director terms, the resolved part of which reads:

**BE IT RESOLVED** that:

1. Article VI.4(b) of the By-laws is hereby deleted in its entirety and replaced with the following:

“(b) There shall be no limit to the number of terms that any Director may serve.”; and

2. The amendments made in this Special Resolution shall come into force and effect immediately upon approval of this By-law amendment by the Nova Scotia Superintendent of Credit Unions.

The Chair asked delegates to use the beige voting cards provided for Schedule A, Unlimited Director Terms and to indicate “Yes” (in favor) or “No” (opposed) to the Resolution. The scrutineers collected and tallied the ballots cast and reported the results to the Chair. Chair MacLean reported that 115 votes were cast. Of that number, 61 voted in favor of the motion or 53% in favor which is less than two-thirds of the votes cast. Therefore, the MOTION WAS DEFEATED.

*Schedule B – Electronic Participation in Meetings*

Chair MacLean called for a Mover and Seconder for the Special Resolution to get it on the floor and noted that two-thirds majority of the votes cast was required in order for the Resolution to be approved.

MOTION: MOVED by Mr. Scanlan, iNova Credit Union, SECONDED by Mr. Belliveau, Caisse populaire de Clare, to approve the Special Resolution of Shareholders of Credit Union Central of Nova Scotia to amend the By-laws to allow electronic participation in meetings, the resolved part of which reads:

**BE IT RESOLVED** that:

1. Article V of the By-laws is hereby amended by inserting the following as Article V.10:

At any meeting of the Central, the Central may permit Delegates to participate by means of such telephone, electronic, or other communications facilities as permit all persons participating in the meeting to communicate with each other, and a Delegate participating in the meeting by such means is deemed to be present at that meeting.

2. The numbering of Article V of the By-laws is hereby amended to reflect the changes made in this Special Resolution;
3. The renumbered Article V.11 of the By-laws, previously Article V.10, is hereby amended by inserting the following as Article V.11(h):

“(h) At any meeting or in relation to any issue before the Members and Associate Members and/or their Delegates, voting shall be in such form, manner and medium as may be determined by the Central from time to time.”;

4. The Table of Contents of the By-laws is hereby amended to reflect the changes made in this Special Resolution; and
5. The amendments made in this Special Resolution shall come into force and effect immediately upon approval of this By-law amendment by the Nova Scotia Superintendent of Credit Unions.

The Chair asked delegates to use the pink voting cards provided for Schedule B, Electronic Participation in Meetings and to indicate “Yes” (in favor) or “No” (opposed) to the Resolution. The scrutineers collected and tallied the ballots cast and reported the results to the Chair. Chair MacLean reported that 110 votes were cast. Of that number, 95 voted in favor of the motion or 86.4% in favor which is greater than two-thirds of the votes cast. Therefore, the MOTION CARRIED.

## **PRESENTATIONS**

The following presentations were made:

**1. Youth Forum**

Mr. Francis Mvere, Sydney Credit Union gave a report to the delegates on the Youth Forum which was held in conjunction with the Annual Meeting. He reported that 35 youth participated in the 5<sup>th</sup> Annual Youth Forum. This year's Forum consisted of four workshops: National Young Leaders Discussion, Successful Leaders: a Panel Discussion, Leadership Skill Development, and Social Media.

**2. Website Update**

Ms. Gina McFetridge, Manager of Marketing & Communications at CUCNS, provided an update on the new website, cuZone, which will become operational in June 2010.

**3. Credential Financial**

Mr. Gary Piccott, Regional Manager, Credential Financial, brought greetings to the delegates on behalf of Credential Financial.

**4. Concentra Financial**

Mr. Norm Klatt, Senior Vice-President, Credit Union Market, brought greetings to the delegates on behalf of Concentra Financial.

**7. The Co-operators**

Mr. Doug Wright, Vice-President Cooperative Business Development, brought greetings to the delegates on behalf of The Co-operators.

**NEW BUSINESS**

**1. Appointment of Auditors**

Mr. Doug Dewling, Chair of the Audit, Risk & Conduct Review Committee recommended that the auditing firm of Grant Thornton be the auditors for Credit Union Central of Nova Scotia for the fiscal year 2010.

MOTION: MOVED by Mr. Shea, Heritage Credit Union, SECONDED by Mr. Dicks, Reddy Kilowatt Credit Union that Grant Thornton be re-appointed as the auditing firm for Credit Union Central of Nova Scotia for the fiscal year 2010. CARRIED

**2. Date & Place for the 2011 Annual General Meeting**

Chair MacLean reported that the dates and location for the 2011 Annual General Meeting has not been decided.



MINUTES – 76<sup>th</sup> Annual Meeting  
April 16-17, 2010

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**ADJOURNMENT**

The Seventy-Sixth Annual General Meeting of Credit Union Central of Nova Scotia adjourned at 1:21 p.m., Saturday, April 17, 2010.

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**CHAIR**

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**CORPORATE SECRETARY**



**Minutes**  
**2010 Special General Meeting (Semi-Annual Meeting)**  
**October 28-29, 2010**

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**CALL TO ORDER**

The 2010 Special General Meeting of Credit Union Central of Nova Scotia was called to order by the Chair, Jim Johnson, at 9:00 am, Thursday, October 28, 2010 in the Commonwealth Room, The Westin Nova Scotian Hotel, Halifax, Nova Scotia.

**APPOINTMENT OF PARLIAMENTARIAN AND SCRUTINEER**

Chair Johnson reported that Victoria Mainprize will be Parliamentarian throughout the proceedings, and Don Noyes will be Chief Scrutineer.

**CORPORATE SECRETARY AND RECORDING SECRETARY**

Chair Johnson reported that Rick Parker is the Corporate Secretary and Irene MacNeil is the Recording Secretary for this meeting.

**RULES OF ORDER & VOTING**

Chair Johnson reported that the By-laws of CUCNS provide that the Rules of Order for all meetings shall be based upon Robert's Rules of Order; except in instances where specific procedures for meetings are provided in the By-laws.

Chair Johnson reported that the Rules of Order are Roberts Rules of Order and the method of voting will be by display of voting cards contained in the Registration kits (green cards for "Yes" and red cards for "No").

**PROOF OF PROPER CALL TO ORDER**

Mr. Parker reported that our governing legislation requires that the notice be sent out at least 21 days prior to the meeting and it was dispatched to the credit unions on October 7, 2010, well within the required timeframe. As of 9:00 a.m., there were:

- 35 credit unions represented by 96 delegates in person and 21 delegates by proxy, 8 alternates
- 66 visitors
- **191 Total Attendance**

Mr. Parker declared that a quorum was present and the delegates officially seated.

**APPROVAL OF AGENDA**

The Chair wished to be granted the discretion to change the order of the Agenda if necessary.

MOTION:        MOVED by Mr. DiPersio, Sr., Princess, Dominion Credit Union, SECONDED by Mr. LeBlanc, Caisse populaire de Clare, that the agenda be approved and that

the Chair have the discretion to change the order of the Agenda if necessary.  
CARRIED

### **CENTRAL'S 2010 OPERATING PROJECTIONS**

Ms. Sharon Arnold, Vice-President, Finance, gave a presentation on Central's 2010 Operating Projections.

Ms. Arnold reported that both Central and League Savings are having excellent years financially. All key financial indicators are at or ahead of target for both companies. The margin is much higher than normal although, as expected, it has been falling the last few months. Operating expenses are under budget.

We need to continue to keep a close eye on liquidity as we don't have as much as we used to but we are meeting all our targets. Both companies continue to be well capitalized.

In addition to a 3% dividend, Central expects to be able to pay rebates of approximately \$2MM which is close to last year's levels. The rebates will be calculated based on credit union liquidity and deposit and clearing volumes.

In LSM, we expect year end distributions to meet or possibly exceed last year. LSM also plans to pay a 3% dividend. The stated rate on the subordinated debentures is 1.5 times the dividend rate which would mean interest on subordinated debentures of 4.5%. However, we budgeted to pay a "bonus" on the subordinated debentures which means we plan to pay 5% again this year. We also expect to pay portfolio fees of 30bps on mortgages and 25bps on deposits plus a special distribution in the range of \$2.5MM.

### **UPDATE ON ATLANTIC CENTRAL**

#### *Status of Transaction*

Chair Johnson reported that this process began two years ago with discussions with PEI and NB about the possibility of becoming an Atlantic Central. Those discussions resulted in the formation of a Steering Committee. The Steering Committee progressed to the point where we were able to form an Interim Board. We have had on average bi-weekly meetings during this process. We progressed to the point where we had a competition for CEO and as a result of the competition our own CEO of CUCNS is now the CEO of Atlantic Central. We are within 2 months of the official Closing. Atlantic Central starts on January 1, 2011. We need legislative amendments to make it legal: NS is in good shape and we have received excellent cooperation from the Regulators and Government. PEI is in good shape. NB has had a change of Government recently and we are not sure where we stand on the legislative amendments but they have to be in place before January 1, 2011.

We have attempted to keep the credit unions in the Atlantic Provinces up-to-date through newsletters, etc. Everyone is excited about January 1, 2011 and becoming an Atlantic Central.

*Overview of the Non-Financial Aspects of the Transaction*

Mr. O'Neil reported that we have been at this project for 2 years and at times there have been very intense discussions.

The legal structure is that we intend to close the transaction on Jan. 1, 2011. This will remove it from any year-end entries or any impact on our financial statements or financial results for the year 2010. It is structured as a purchase and sale primarily for tax reasons but also the costs of putting together a new entity would be quite high and the timeframe to do it would be much longer. This was considered the least costly, most tax efficient. NS Central will purchase the assets and assume the liabilities of NB and PEI Centrals on Jan. 1, 2011. As part of the transaction, NS Central will change its name to Atlantic Central (AC) to be reflective of the region and the type of organization we will have on a go-forward basis.

There has been any number of pre-closing issues to deal with as part of the transaction and at times the terms become confusing and occasionally get used interchangeably. The process has been that the role of the Steering Committee was to participate and negotiate the transaction up to the point of the signing of the Definitive Agreement (DA). The DA was signed on June 30, 2010 and then the Interim Board began its oversight of the transaction. Neither the Steering Committee nor Interim Board has any legal power, but were put in place to ensure the wishes of the provinces and agreements within the DA were adhered to from a regional perspective. The Interim Board will become the Inaugural Board on January 1, 2011 and at that point have the full legal authority and responsibility as the board of Atlantic Central. The terms of all directors on the Inaugural Board will expire at the AGM of AC to be held in 2012 and all directors positions will be up for election in each of the four provinces in AC. It was felt that the Inaugural Board needed a period of time to transition the organizations to the AC and it was felt that that period of time made sense.

Legislative amendments are required in 3 of the provinces except for NL who do not require any. We expect to negotiate changes over the first few years of AC. Each of the Centrals has been playing the lead in designing and negotiating the types of amendments required in each of our provinces. In NS, we have been very active in speaking with our government representatives including the Premier, the Minister of Finance, the Superintendent of Credit Unions office and the other Centrals have been active in the same kinds of activities with their respective governments and regulators. We have also had a number of meetings with the regulators from the 4 Atlantic Provinces – the tone and input was supportive and extremely encouraging in accomplishing this transaction. The amendments would be effective on Jan. 1, 2011. They are critical and necessary to complete this transaction.

You will deal today with amendments to the Articles and Bylaws of NS Central. The reason is that the Bylaws of NS Central will become the Bylaws of AC on Jan. 1. These bylaws also need to be amended to enable the closing of the transaction and we require the approval of the shareholders of NS Central to be able to accomplish the closing. The amendments incorporate the requirements of the MOU that was negotiated and approved by each shareholder group in the provinces of NS, NB and PEI and also to address the items agreed to in the DA. We

attempted to limit the amendments to those required to accomplish closing and there were a few others required in order to have consistency within the bylaws.

The Interim Board participated on behalf of the credit unions in each province in identifying the types of amendments that were required and that the amendments to accomplish the terms of the DA were included. The Interim Board appointed a bylaw review committee comprised of representatives from the 4 Atlantic Provinces and that group made recommendations that were taken into consideration and the final product had to be approved by the Board of NS Central.

This is not the end to amendments to our By-laws – there are others that have been raised from time to time but not critical to the closing. We feel that it is important that all credit unions as shareholders of AC approve any amendments to the bylaws of AC. Bylaw amendments may come forward in the fall in 2011 – credit unions also have the right to put forward amendments to bylaws that they think are appropriate.

There are also considerations at the policy level which affect the operation of AC and we are reviewing policies of NS Central and ensuring that policies enable us to do the transaction and also to be able to purchase the assets of the other provinces. Prior to closing, the Centrals will determine which products & services continue to be available to credit unions. This is a challenge to manage as there are different expectations as to what they may mean. In general terms, the existing products & services of the Centrals will be available on Jan. 1<sup>st</sup>. We have to continually monitor the appetite of credit unions for particular products & services and this will impact the resource requirements of AC.

Current service levels will remain immediately following closing. During 2011 and longer the AC will create a consistent suite of services and pricing for all members of AC. The process to do that will be to involve credit unions in reviewing the products & services that are offered by AC, to identify any additional products & services that may be required by the credit unions and also to consider whether there are products & services offered that credit unions do not need at this point in time.

Assets and liabilities of NB and PEI will be valued at fair market value which will be equal to book value to the extent possible. There are certain assets we all have as Centrals that are difficult or inordinately expensive to value. Other assets will be able to be valued quite simply – other forms of investments in various types of instruments, i.e. bonds, term deposits, etc.

The process as agreed by the Interim Board for the recruitment of a President & CEO – included an internal and external recruitment process and involved an outside firm. Mr. O’Neil stated that it is both humbling and challenging to take on this role.

To deal with employees, which is the focus right now, and has been for the past period of time, and much more so in the past 2 to 3 weeks. A requirement is that all existing employees will receive offers of employment – applies to the employees in NB and PEI because they will become employees of the AC. Confirmation of employment letters for other employees – CUCNS. Those offers and confirmations were agreed to be provided on November 1. The

reality is that, given the timelines that we have had to work with and when these agreements were put in place, we were working on the assumption that the DA would have been completed on Dec. 31, 2009 and that a CEO would have been appointed much earlier in the year. Given those timeframes, there will be some adjustment to that date – accomplished by November 5.

Mr. O'Neil met with the employees of the 3 Centrals over the past few weeks and indicated that offers of employment and confirmation of employment would now be provided by November 5. Employees in NB and PEI have been given the assurance that no employee will be required to move.

Employee benefits plans: a lot of similarities, we decided to move to a common employee benefit plan and this will happen on Jan. 1. The benefit plans are CUCNS plan – we have made some amendments to our benefits plan to take into account some of the differences in plans.

The offices of the AC – head office will be in NS, there will be offices in NB and PEI at closing, we also committed to establish an office in NL and expect to accomplish that by the middle of next year. Significant presence in NB and PEI: a minimum of 6 employees which includes a senior manager – there will be at least one person in those offices who are within 2 reporting levels of the CEO. We may combine the offices of AC with offices of LSM as those opportunities present themselves and require discussions with the Board of LSM.

Membership in AC is mandatory for the credit unions who are currently members of each of the 3 centrals. This will be accomplished through legislation which would require mandatory membership or as in NL, the credit unions have agreed to enter into a contract which will accomplish the same objective.

In AC there will be a number of classes of shares in order to accomplish the objectives. The common shares will represent the proportionate ownership of AC following closing. There will be new provincial class shares – 4 classes of shares, one for each province and these will represent the value in each of the centrals prior to closing.

For credit unions, you will have the proportional representation – each credit union will have a minimum of 1 vote and there will be 1 vote for every \$1MM in assets. The votes of credit unions at AC meetings will be in two pieces: a simple majority which will be used for many votes; 50% plus 1 of the votes cast for ordinary resolutions. In the case of a double majority that will be used for special resolutions, we must have 50% plus 1 of the votes and also that vote has to be made by 2/3 of the delegates participating. This is to recognize that there is strong support for those types of resolutions – amendments to bylaws, and to ensure that a small number of credit unions that could represent more than 50% of the assets would not be the only means to amend bylaws as an example. The double majority can also be requested at any time, the Chair could indicate that a particular vote would require a double majority.

For meetings, there will be one voting delegate or alternate per member; however we have recognized that credit unions are used to have more than 1 person coming to a meeting and have the ability to speak – the bylaws do not restrict the number of representatives they can

take to a meeting. The AGM of AC will be rotated among the Atlantic Provinces at places that can accommodate these events. It will take some time to get a sense of how many will be attending AGMs and SGMs of AC – we hope to develop electronic meetings for credit unions to participate without having to travel as well.

*Dues:* the Interim Board will determine the initial dues and they are set at 10bps of credit union assets.

*System dues:* these are used to support dues levied by other system organizations, i.e. CUCC, CCA.

*Other Dues:* there may be special projects that credit unions have agreed to engage in or ask AC to engage in. These will be determined by the credit unions and will be based on the requirements of the special projects and credit unions will determine whether they support proceeding with those.

The windup of NB and PEI Centrals will occur in the first half of 2011 and the AC in January will manage those Centrals between the closing and the windup – to allow for the orderly windup and recognize that all our centrals have year ends to deal with and produce audited financial statements. The Boards of NB and PEI will remain in place until the windups are completed.

Mr. O’Neil reported that he has appointed his Executive Management comprised of three Senior Vice-Presidents: Sharon Arnold, Rick Parker, Michael Leonard. Our employees have been extremely supportive of this transaction and of Management and the Board.

#### *Overview of the Financial Aspects of the Transaction*

Ms. Arnold gave a presentation on the financial aspects of the AC transaction. From a financial perspective, the AC transaction is quite complicated. The transaction is not effective until January 1, 2011 which means it will not affect credit union 2010 financial statements.

Many hours and lots of money has been spent by our lawyers, McInnes Cooper, and our auditors, Grant Thornton, making sure that the transaction is structured in such a way that the guiding principles are achieved.

We needed to find a way to capture the equity and value that each Central is contributing to the transaction, and make sure that the value remains with the credit unions of that province after closing. Separate classes of shares will be created by NS Central to capture the equity and value of each Central contributing to AC – Class NS, NB, NL and PEI shares. Class B shares will also be created to allow for additional subscriptions if additional equity is required by any province. NS Central will distribute Class NS and NL shares to NS and NL member credit unions to capture equity and accrued value of the NS Central. Class A shares (held by NL credit unions) will be exchanged for common shares. Class A shares will be cancelled.

Implications for credit unions: dividend income (tax deferred basis); increase in credit union equity; increase in investment in Central shares (Class NS and Class NL); for NL credit unions, Class A shares are replaced with common.

NB and PEI Centrals will transfer assets at fair value to the Atlantic Central. In exchange, the AC will assume the liabilities of the other Centrals, issue common shares, issue Class NB and Class PEI shares.

At post-closing, NB and PEI Centrals will distribute the common, Class NB and PEI shares to members in exchange for provincial Central shares. NB and PEI Centrals will continue to exist as shell entities in the short term.

A share and equity rebalancing process will occur. After rebalancing, each credit union will own:

- Common shares proportionate to their share of Atlantic system assets
- Class NS, NL, NB or PEI shares proportionate to their share of equity and inherent value in assets transferred to AC
- Class B shares as required to rebalance equity

Equity rebalancing: each member credit union will either have their respective class of shares redeemed or will acquire additional Class B equity shares in the AC. A redemption will result in taxable income to the credit union. A contribution of additional capital will result in an increase in the credit unions investment in the AC.

### **ATLANTIC CENTRAL'S 2011 BUDGET ASSUMPTIONS & CONSIDERATIONS**

Ms. Arnold gave a presentation on Atlantic Central's 2011 budget assumptions.

Ms. Arnold reported that the Atlantic Central budget has been built based on three fundamental principles from the Atlantic Central Business plan:

- Equality: AC will offer the same products and services available to all member credit unions at the same price.
- Transparency: the price and cost of services will be transparent.
- Competitive: our goal is to be within 5% of the average cost of similar services provided by other Centrals.

The year 2011 will be a transition year. All services and pricing will be reviewed in 2011 and credit unions will be part of the process. We will be looking for input from credit unions regarding what service enhancements they would like to see from AC and how those services should be paid for.

Service charges – the objective to be within 5% plus/minus the average of the clearing Centrals. Service charges will be the same for all credit unions on January 1, 2011. There will be a reduction in electronic service fees.

Sponsorships currently varies significantly by province and is under review by the Interim Board.

There will be one-time costs in 2011 of approximately \$1.8MM for personnel, marketing and communications, professional fees and the windup of CUCNB and CUCPEI.

**AMENDMENTS TO BY-LAWS & ARTICLES OF CONTINUANCE**

Chair Johnson reported that we will consider the Special Resolutions that were included in the formal Notice of Meeting and detailed under Schedules A, B and C. These resolutions, proposed by the Central Board, are necessary to support the Definitive Agreement.

***Schedule A-Shareholders Special Resolution to amend the Articles of Continuance to create New Classes of Preferred Shares***

Chair Johnson reported that Schedule A creates the new classes of Preferred Shares. These include the provincial classes of NS, NL, NB and PEI shares as well as the Class B Shares.

Chair Johnson called for a Mover and Secunder for the Special Resolution to get it on the floor and noted that two-thirds majority of the votes cast was required in order for the Resolution to be approved.

MOTION: MOVED by Mr. Wark, Valley Credit Union, SECONDED by Ms. Murphy, Public Service Credit Union (NL) that the Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares be approved, the resolved part of the Resolution which reads as follows:

**BE IT RESOLVED** as a Special Resolution of the Shareholders of CUCNS that:

1. on the day of and prior to the Closing, pending their approval by the Superintendent of Credit Unions, Nova Scotia, and the federal Office of the Superintendent of Financial Institutions, CUCNS amend its Articles of Continuance to permit the increase of its authorized capital by the creation of the Preferred Shares.

MOTION CARRIED

***Schedule B-Shareholders Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares and to Exchange and Cancel the Class A Shares***

Chair Johnson reported that Schedule B will only be considered and voted on by the Class A Shareholders.

Chair Johnson called for a Mover and Secunder for the Special Resolution to get it on the floor and noted that two-thirds majority of the votes cast was required in order for the Resolution to be approved.

MOTION: MOVED by Mr. Dicks, Reddy Kilowatt Credit Union, SECONDED by Mr. Blake, Hamilton Sound Credit Union that the Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares and to Exchange and Cancel the Class A Shares, the resolved part of the Resolution reads as follows:

**BE IT RESOLVED** as a Special Resolution of the Class A Shareholders of CUCNS that:

1. on the day of and prior to the Closing, pending the approval of the Superintendent of Credit Unions, Nova Scotia, and the federal Office of the Superintendent of Financial Institutions (“OSFI”), the Articles of Continuance of CUCNS be amended to create the Preferred Shares;
2. immediately following the creation of the Preferred Shares and the declaration by the Board of Directors of CUCNS of a stock dividend to the holders of Class A Shares, CUCNS be permitted to exchange the Class A Shares for Common Shares; and
3. immediately following the exchange of the Class A Shares for Common Shares, CUCNS be permitted to cancel all of the unissued Class A Shares in its capital stock, and the Articles of Continuance of CUCNS be amended accordingly, pending approval by the Superintendent of Credit Unions, Nova Scotia, and OSFI.

MOTION CARRIED UNANIMOUSLY

***Schedule C-Shareholders Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares and to Exchange and Cancel the Class A Shares***

Chair Johnson reported there were three meetings and two webinars with credit unions to review the Resolutions and particularly to provide an opportunity for discussion and clarification on the main changes to the Bylaws and Articles. At these sessions, presentations were focused on changes necessary for the Atlantic Central related to our share structure, membership structure, the approach to dues, our voting structure, regional and peer group meetings including changes to the NS Peer Group structure, the simple and double majority requirements for delegate decisions and the election process for Directors including the proposed appointments to the first Board of Atlantic Central on January 1, 2011.

The main issue raised at the sessions was related to the interpretation of a Director’s eligibility to serve following nine consecutive years. The discussion centered on what period of time should there be between a Director having served nine consecutive years and being eligible to serve again. Neither our current Bylaws nor the proposed Bylaws define a required period of time. There was one proposed Director for the Atlantic Central Board who would be impacted by defining a break as one year and that is Dave MacLean. The Central Board has selected and proposed Dave as a Director for Atlantic Central when they become a legal entity on the proposed closing date of January 1, 2011. The selections were done at a Board meeting in September 2009 and it was felt that the Directors selected for the Inaugural Board should respect some geographic representation.

Chair Johnson reported that we will be proposing some minor “friendly” amendments based on input from the meetings with credit unions and our Regulator and to include a NB director to fill a vacancy. Other amendments may be proposed to these Bylaws by any Delegate.

Chair Johnson reported that amendments will require a Mover and Secunder and must receive support by 50% plus 1 of the votes cast in order to be carried. The Resolution would then be voted on in its amended form and would require 2/3 support of the votes cast in order to be carried.

Chair Johnson asked for a Mover and Secunder for this Resolution to get it on the floor and the Resolution must receive support by 50% plus 1 of the votes cast.

**MOTION:**        **MOVED** by Mr. LeBlanc, Caisse populaire de Clare, **SECONDED** by Mr. Timmons, Bergengren Credit Union, that the Shareholders Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares and to Exchange and Cancel the Class A Shares be approved, the resolved part of which reads as follows:

**BE IT RESOLVED** as a Special Resolution of the Shareholders of CUCNS that:

immediately prior to Closing, the then current By-laws and Articles of Continuance of CUCNS be deleted in their entirety and replaced with the Atlantic Central By-laws and Articles of Continuance attached hereto, pending their approval by the Superintendent of Credit Unions, Nova Scotia.

Mr. Parker put forward the forward the following amendments coming out of the meetings with credit unions, the input from our Regulator and the NB director position.

Chair Johnson asked for a Mover and Secunder for the amendments and requires the support of 50% plus 1 of the votes cast in order to be carried. An amendment to the motion was proposed.

*AMENDMENT (1):*

**MOTION:**        **MOVED** by Mr. Ness, Credit Union Atlantic, **SECONDED** by Mr. Hamlin, Credit Union Atlantic, that the Shareholder’s Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares and to Exchange and Cancel the Class A Shares be approved, the resolved part of which reads as follows:

**BE IT RESOLVED** as a Resolution of the Shareholders of CUCNS that the Special Resolution of the Shareholders to amend the By-laws and Articles of Continuance to create the initial Atlantic Central By-laws and Articles of Continuance be substituted by the following:

1. subject to the approval of the Superintendent of Credit Unions, Nova Scotia, immediately upon Closing the then current By-laws and Articles of Continuance of CUCNS be deleted in their entirety and replaced with the Atlantic Central By-laws and Articles of Continuance, attached hereto and amended as follows:

1. Article IV.12(b) of the By-laws is amended by deleting the word “additional” from the first sentence;
2. Article IV.12 (g)(ii) of the By-laws is amended by deleting the words “participating in and entitled to vote at the meeting” and replacing them with the words “who voted in respect of the resolution of decision”;
3. Article VI.3 (e) of the By-laws is amended by deleting the words “thirty (30) days” and replacing them with the words “forty-five (45) days”;
4. Article VI.3 (f) of the By-laws is amended by deleting the words “fifteen (15) days” and replacing them with the words “thirty (30) days”; and
5. that Article 6 of the Articles of Continuance be amended by deleting the words “TBD” and replacing them with the following:  
“Pat Duffield Educator  
119 Tony’s Street  
Grand Digue, NB E4R 5W5  
; and

prior to Closing, the Board of Directors of CUCNS be empowered to make such incidental changes to the Atlantic Central By-laws and Articles of Continuance attached hereto, as amended, as may be needed to ensure the approval of the federal Office of the Superintendent of Financial Institutions and the Superintendent of Credit Unions, Nova Scotia prior to Closing.

A further amendment was proposed.

*AMENDMENT (2):*

**MOTION:** MOVED by Mr. Fancy, LaHave River Credit Union, **SECONDED** by Mr. Scanlan, iNova Credit Union the Shareholder’s Special Resolution to amend the Articles of Continuance to create new classes of Preferred Shares and to Exchange and Cancel the Class A Shares be approved, the resolved part of which reads as follows:

**BE IT RESOLVED** as a Special Resolution of the Shareholders of CUCNS that:

1. subject to the approval of the Superintendent of Credit Unions, Nova Scotia, immediately upon Closing the then current By-laws and Articles of Continuance



The meeting recessed at 4:05 pm and reconvened at 9:00 am on Friday, October 29, 2010.

**CREDIT UNION CENTRAL OF CANADA UPDATE**

Mr. Stephen Fitzpatrick, Vice President of Finance & Operations, provided an update on the activities of Credit Union Central of Canada.

**FRAUD PREVENTION PANEL**

Mr. Michael Leonard introduced the members of the Fraud Prevention Panel who each gave presentations on fraud prevention specific to their areas of expertise. The members of the panel included:

- Stephen Fitzpatrick, Vice-President of Finance & Operations, CUCC
- Georgina Fitzpatrick, Manager, Risk Management Services, CUCNS
- Ian MacNeil, Director of Operations, League Data Limited

**ADJOURNMENT**

There being no further business, the 2010 Special General Meeting adjourned at 10:30 a.m. on Friday, October 29, 2010.

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**Chair of the Board**

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**Corporate Secretary**

# Table of Contents/Mission Statement

## *Table of Contents/Mission Statement*



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Affiliate Boards

**Design and Layout by:** Blaine Johnson

**Printing and Assembly by:** Printing & Supplies

**Photos supplied by:** Precision Photography – CEO and Board of Directors,

All other photos taken by various staff members - IWK Credit Union Bowl-A-Thon, Stand Up Against Bullying Day, Food Drive, Canadian Blood Services, United Way.

## Vision

To be an innovative leader contributing to a strong and effective network of credit unions.

## Mission

Through our leadership and the excellence of our people, products and services, we support credit unions in becoming the financial institution of choice.

## Values

### *Stewardship*

We accept the roles of support and leadership defined for us by the credit unions of Nova Scotia and Newfoundland and Labrador, and with them, support the well-being of the credit union network and the communities it serves. We will operate in a socially responsible and profitable manner for the common good of our stakeholders.

### *Service*

We are committed to providing professional service to our stakeholders who include credit unions and their employees, our affiliates and their employees, and to each other.

### *Respect*

We will conduct ourselves respectfully – respectful of diversity, respectful of ourselves and respectful of others in order to build and sustain a productive workplace.

### *Accountability*

We choose to be accountable for our actions and the results we deliver to our stakeholders. We share responsibility for the well-being and success of Credit Union Central of Nova Scotia and the credit unions it serves.

### *Continuous Growth and Development*

We commit to continually strengthening our organization and services. We will initiate learning and improve personally, departmentally and corporately to enhance our contributions for the well-being of our stakeholders and the communities we serve.

# Message from the Board of Directors

## *Message from the Board of Directors*

If 2009's theme was 'fiscal challenge', 2010's theme was 'Atlantic Central'; the overarching project at Central was completing the business combination with the Credit Union Centrals of New Brunswick and Prince Edward Island. This we did, successfully, closing the transaction on January 1, 2011.



Although Atlantic Central touched all aspects of our operation, the regular business of the Central also carried on successfully. Credit unions were supported through Central's services, and results indicate that the work on Atlantic Central did not adversely impact

the services provided.

Credit unions in Nova Scotia and Newfoundland and Labrador continued to work hard to cope with the recessionary malaise. Combined system assets grew modestly from \$2,094 million in 2009 to \$2,173 million in 2010. Consolidation remains a strong national trend, but here at home, the number of credit unions remained at 41, serving 204,400 members from 108 locations in communities across Nova Scotia and Newfoundland and Labrador.

### *Atlantic Central Highlights*

On June 30, 2010, the Definitive Agreement to form Atlantic Central was signed and the Interim Board established, replacing the Steering Committee which was put in place in 2009. The Interim Board consisted of members from each of the centrals, and was chaired by Dave MacLean, past chair of the Credit Union Central of Nova Scotia (CUCNS) Board of Directors. All the Board members, especially those serving on both the CUCNS Board and the Interim Board, put in a full and busy year working to effect the by-law, regulatory and legislative changes and approvals required to complete the transaction. At the same time, the CUCNS Board was committed to ensuring that Central continued to receive the direction required to carry on its regular work and fulfill its commitment to our credit union members, which it did.

Although this is the final year of reporting for Credit Union Central of Nova Scotia, this is not a sad occasion, nor is it a farewell. The Atlantic Central will be an important asset for credit unions of the region, and represents an opportunity to strengthen our system and move forward on behalf of the 340,000 members in the Atlantic Region and the 62 credit unions we support.

### *National Overview*

Credit Union Central of Canada (CUCC) is well into the process of transitioning from its status as a registered financial institution to a trade and advocacy organization. It remains to be seen how this will affect the national credit union system, although last fall's CUCC-organized Lobbying Day was very successful.

In related national news, the federal government has created the ability to register federal credit unions, through changes to the Bank Act rather than the creation of a federal Credit Union Act. Thus far, no credit unions have determined to become a federal credit union, due in some part to the stringent and rigorous standards for registering such an institution.

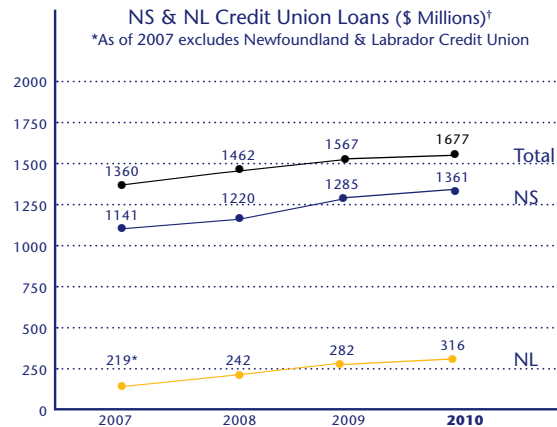
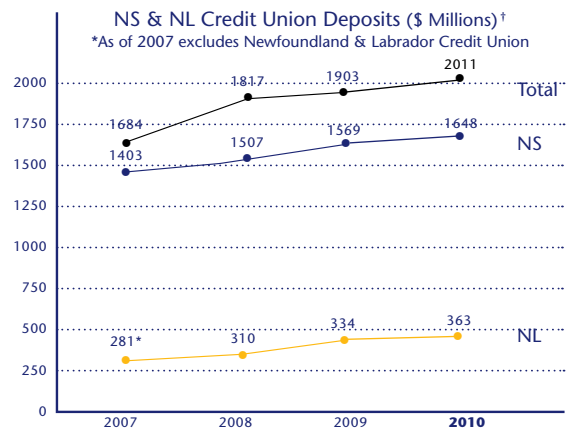
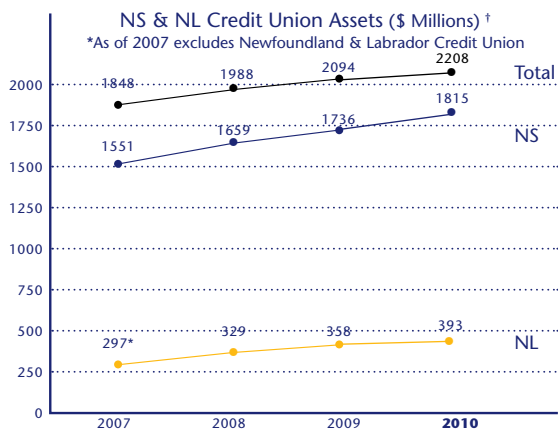
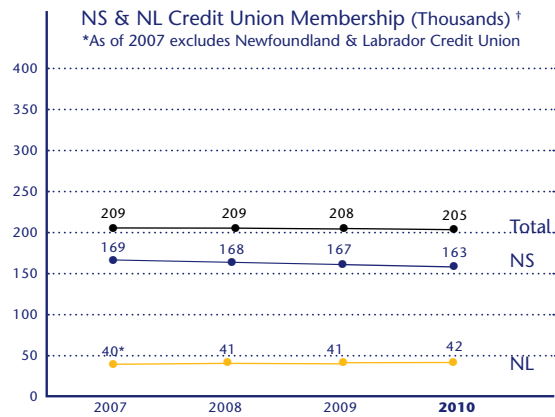
### *Appreciation*

Bernie O'Neil was the successful candidate in the Atlantic Central President and CEO recruitment and hiring process. Therefore, not only do I express my sincere gratitude on behalf of the Board for Bernie's leadership and service to CUCNS, I also extend my best wishes for his future direction and leadership as President and CEO of the Atlantic Central. The Board of Directors of Credit Union Central of Nova Scotia also extends sincere gratitude to the management and staff of Central for their perseverance and hard work in a year of change and some uncertainty.

Finally, the Board wishes to recognize the credit unions of Nova Scotia and Newfoundland and Labrador for their continued commitment to meeting the financial needs of their members and their dedication to finding new, more effective and efficient ways of doing so.



Jim Johnson, *Chair*  
*Board of Directors*



†Numbers are based on non-audited credit union results.

# President & Chief Executive Officer's Message

## *President & Chief Executive Officer's Message*

**A**s part of our commitment to ensuring long-term financial stability for Central and financial success of the credit union system, in 2007 we entered into serious talks about forming a regional central in cooperation with the centrals of New Brunswick and Prince Edward Island. In 2010, the pursuit of an Atlantic Central shifted into high gear, with our goal realized on January 1, 2011, when Atlantic Central officially came into being.



Although the formation of Atlantic Central consumed considerable resources, we continued to have operational performance as a primary focus. Central achieved excellent financial performance, declaring a 3% dividend once again and paying rebates of \$3.3 million to credit unions. This is particularly impressive on the heels of 2009's year of fiscal restraint and economic challenge, and in light of the current interest rate environment.

Credit unions continued to rise to the current economic challenges, as combined assets in the system grew to \$2,173 million in 2010. Membership numbers remain somewhat flat, with a bump in Newfoundland and Labrador. Nationally, Synovate's 2010 Best Banking Awards demonstrated for the sixth year in a row that credit unions continue to lead in overall customer service excellence, branch service excellence, valuing members' business, financial planning and advice and telephone banking excellence. In addition, the Canadian Federation of Independent Business released poll results demonstrating that credit unions are the financial institution of choice of micro and small businesses.

Our regional credit union brand is envied by other parts of the country for its consistency, strength and recognition factor. In support of this brand, we launched the Ownership is Better website, along with a new debit card design coordinated by the Atlantic Marketing Group. Training sessions to help employees "live the brand" were offered throughout the year, often facilitated by credit union staff.

We continue to seek ways to help credit unions build capacity and to that end, we offered a Risk Management Forum to 93 credit union employees from around the region. Our spring Youth Forum offered 38 young leaders an opportunity to learn and contribute. Our partnership with the provincial government enhanced our ability to offer commercial loans, a benefit for our Atlantic Business Owner Strategy (ABOS) group especially. Late in the fall, \$10 million was made available to the system for small business lending as a result of negotiations with the Nova Scotia Government. We consider this a first step towards access to additional funding.

Another way we have sought to improve credit unions' experience of and access to Central services in 2010 was in the establishment of a new extranet, the cuZone site. This branded site features enhanced functionality and improved navigation along with a functional search feature to help credit unions make the most of the information available to them.

Central has actively supported and participated in national initiatives this year including the Canadian Business Owners Strategy (CBOS) and Credit Union Central of Canada's Lobbying Day. We were again nationally recognized by the Disaster Recovery Institute of Canada for our business continuity planning, winning the 2010 Award of Excellence in the small company category. In the area of corporate social responsibility, we initiated a project to help us reduce our carbon footprint, along with supporting the Red Cross and facilitating our credit unions' response to natural disasters in Haiti, Pakistan, and Newfoundland and Labrador. To learn more about our philanthropic initiatives and charitable support, please see our Philanthropy section in this report.

Credit Union Satisfaction Survey results again showed that credit unions appreciate the services we offer, and recognize the value they add. Since 2001, Central has consistently shown an overall rating of 81% or higher, and 2010 was no exception, with a satisfaction score of 82.9%. In the scores for perceived service quality, the results were even more impressive, given the scope of services we provide. Thirty-six per cent of respondents rated Central's service "excellent", up from 19% in 2009. In our efforts to continuously improve our relationship with credit unions, we will use the Satisfaction Survey results to determine areas that require attention and discussion with credit unions.

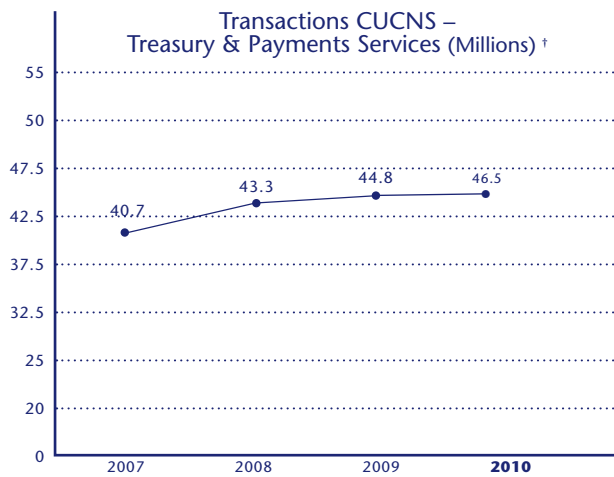
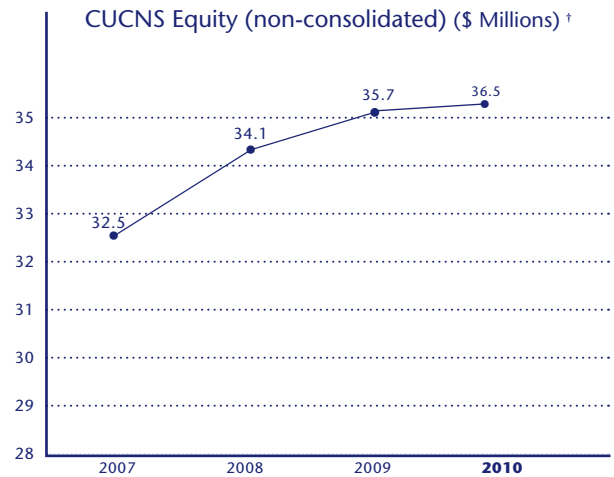
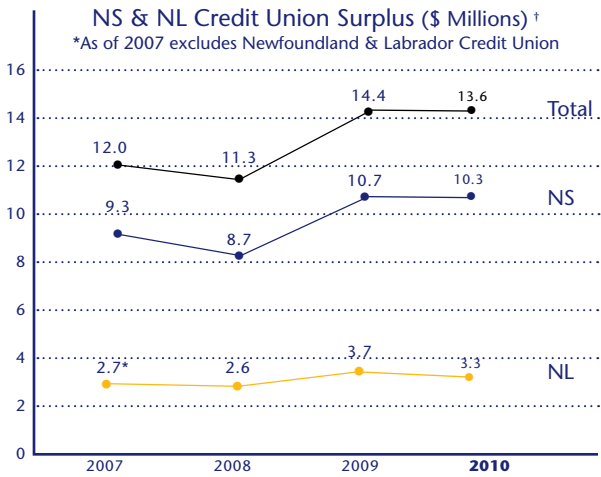
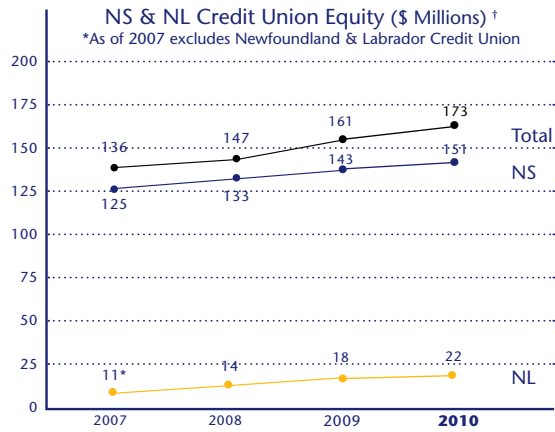
I would like to thank the employees of Central, along with its management and vice-presidents, for their patience and fortitude in a year of upheaval and change. We were pleased to offer all employees positions in the new Central as their hard work and diligence are the foundation of Central's success.

In closing, I'd also like to recognize the support and direction that our senior management group received from our Board and from our outgoing Chair, Jim Johnson. We appreciate the trust you placed in us to understand and execute your vision. Looking forward, we anticipate the leadership of the Atlantic Central Inaugural Board, led by Dave MacLean, in establishing a vibrant regional central that is better positioned to serve all credit unions in our region.

We look forward to the challenges and opportunities in 2011 and beyond.



Bernie O'Neil, *President & CEO*  
CUCNS & LSM



†Numbers are based on non-audited credit union results.

# Philanthropy

## Philanthropy

Credit Union Central of Nova Scotia, in keeping with the cooperative principles upon which it was founded, seeks ways to give back to the communities we and our member credit unions inhabit. In some cases, we do this in cooperation with credit unions, and in others we collaborate with partner companies League Savings and League Data. At the AGM in 2010, the Nova Scotia Credit Unions Charitable Foundation officially wound up, with a commitment by the Central Board to continue with the same spirit of giving.

### Nova Scotia-Wide Philanthropy

Credit unions in Nova Scotia, Central, League Savings and League Data combined forces throughout the year to support many worthwhile causes, some of which are outlined below.

Through the *Partners for Life* program, we saved 285 lives. Our 2010 pledge to Canadian Blood Services was 60 units, and we succeeded in donating 95. Each unit donated can save three lives.



2

The 2010 Credit Union Day / Co-op Week Annual Credit Union Food Drive collected almost 14,000 lbs (or 6,350 kgs) of food, and donated it along with \$1,970 to local food banks across the province. This was the fifth year for the food drive, with the cumulative total amount of food donated to date exceeding 23,500 lbs (or 10,660 kgs).

2010 was a year of natural disasters rocking the globe, and locally, members sought opportunities to help. Credit unions across Nova Scotia, along with Central, League Savings and League Data, collected \$420,000 for disaster relief in Haiti and \$4,500 for disaster relief in Pakistan. Credit unions in New Brunswick, Prince Edward Island and Newfoundland and Labrador joined us in collecting \$6,500 for Newfoundland to recover from the ravages of Hurricane Igor. In each case, the monies were donated through the Red Cross.



4

Credit unions have a long history of supporting the IWK Health Centre, having surpassed the \$1 million mark in 2009 for lifelong giving. In 2010, fundraising and Bowl-A-Thons were held in Port Hawkesbury, Sydney and Halifax, collecting pledges in excess of \$20,600 for the IWK Health Centre Foundation.



1

Education is one of the pillars of the cooperative movement, and in 2010, 32 deserving college students in Nova Scotia and Newfoundland and Labrador received \$500 bursaries sponsored by Central on behalf of credit unions. Also related to education is *Stand Up Against Bullying Day*, now a nationally celebrated awareness event that started with two high school students in Nova Scotia.

Credit unions across Nova Scotia, along with Central, League Savings and League Data, dressed the part in solidarity with those who have been bullied.

### Employee-led Giving

The employees of Central, League Savings and League Data regularly donate time, energy and money to charitable causes they find meaningful. Two company-sponsored and employee-led charitable events this year stand out. In July, a team of 24 was assembled to take part in the annual *Manulife Dragon Boat Race*, finishing respectably in the middle of the pack, and more importantly, contributing donations totalling \$2,500 to the Nova



3

Scotia Amateur Sport Fund. In November, the annual United Way campaign took place. Through a combination of fundraising events, payroll pledges and corporate

sponsorships, over \$18,000 in total was donated to the United Way offices in Halifax, Moncton and Sydney. Each of the three companies donated a \$1,250 Pacesetter donation towards this total.

1. Stand Up to Bullying – Bergengren Credit Union
2. Food Drive – Heritage Credit Union
3. Dragon Boat Festival – Employees and Family
4. IWK Bowl-A-Thon – East Coast Credit Union

# Management Discussion and Analysis

## *Management Discussion and Analysis*

### **Risk Management**

Risk management is one of the most important responsibilities of Credit Union Central of Nova Scotia. Risk management objectives are reflected within the comprehensive risk management strategies and policies.

Central's risk management strategies and policies are governed by the principle of optimizing risk for the protection and creation of shareholder value, and are designed to ensure that the company's risk-taking is consistent with its business objectives and risk tolerance.

Central has an enterprise-wide capability to recognize, understand, measure, assess and manage risks taken across the organization. Authority for all risk-taking activities rests with the Board of Directors, which approves risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. The Risk Committee of the Board is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for allocation of human, capital and other resources. The Audit Committee is responsible for overseeing all financial risk management policies.

The Management Finance Committee (MFC) is responsible for the review and evaluation of financial risks and performance. The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies. The Asset Liability Management Committee (ALCO) is responsible for ensuring the effective and prudent management of the Company's financial assets and liabilities. ALCO achieves this by developing and implementing financial strategies and related processes consistent with the short and long terms goals set by the Board.

Qualified professionals throughout Central manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes. The various processes within Central's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed and controlled. Internal Audit reports independently to the Audit Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

The risks are summarized into the following categories: capital adequacy, governance, credit, legal and regulatory, liquidity, market, operational, and strategic.

### **Capital Adequacy Risk**

Capital adequacy risk is the risk of financial loss or regulatory intervention due to the failure of Central to maintain the necessary capital to meet regulatory requirements and/or support its business plans.

Central has established capital management policies, which govern the quantity and quality of capital the company will maintain. In addition, a capital plan is prepared annually which forecasts the amount of capital required throughout the year and the sources that will be used to fund those requirements. The capital policies and plans are reviewed and approved annually by the Board of Directors.

Management regularly monitors the company's capital position and reports to the Board on a quarterly basis.

### **Governance Risk**

Governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the Board of Directors and senior management.

Governance risk is mitigated through qualification criteria, orientation program, ongoing development and training, regular Board and committee meetings, the annual strategic planning process and an annual evaluation process.

### **Credit Risk**

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligation.

To ensure effective credit risk management, the company has established policies and procedures for credit risk. Credit policies are reviewed and approved annually by the Board of Directors. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

Procedures are in place governing credit activities including:

- Application of stringent underwriting criteria
- The use of qualified personnel and the clear delegation of decision-making authority
- Portfolio diversification to mitigate credit exposure by establishing concentration limits
- Oversight by the Board and management committees before funding is permitted, and once approved, ongoing credit risk evaluation and assessment

# Management Discussion and Analysis

## *Management Discussion and Analysis*

Central maintains both specific and general allowances for credit losses. Specific allowances are established based on management's knowledge of the property and prevailing conditions. General allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The general allowance is determined based on the Company's risk weighted portfolio and other factors including an assessment of market risk.

Management regularly monitors Central's credit risk and reports to the Board on a quarterly basis.

### **Legal and Regulatory Risk**

Legal and regulatory risk is the risk of loss due to the failure to adhere to legal and regulatory standards.

Central is governed under the Canadian Co-operative Associations Act of Canada and the Credit Union Act of Nova Scotia, and is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) and provincially by the Superintendent of Credit Unions. League Savings is governed by the Trust and Loan Companies Act of Canada and regulated by OSFI. OSFI regularly reviews the activities of Central and League Savings and periodically carries out on-site examinations. All correspondence to and from OSFI is reported to the Board of Directors by management. League Savings is also a member of the Canada Deposit Insurance Corporation.

Central maintains a legislative and policy compliance management system in which all legislative and policy requirements are regularly reviewed and reported on. New policies and procedures are developed to address legislative requirements as appropriate.

The Board of Directors receives a quarterly compliance report in which any deficiencies and corresponding action plans are identified.

### **Liquidity Risk**

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis.

Central has established policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board of Directors.

Central's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Scenario testing and contingency planning

Management monitors Central's liquidity position daily and reports to the Board on a quarterly basis.

### **Market Risk**

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.

Market risk exposures are managed through policies, standards and limits established by the Board of Directors, which are formally reviewed and approved annually. Central uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The company has developed standards regarding the use of derivative products.

Interest rate risk is the potential impact on Central's earnings due to changes in interest rates. This risk comes mainly from differences in the maturities or re-pricing dates of assets and liabilities, both on and off-balance sheet. Credit union liquidity investments are re-priced on a monthly basis. Mortgage and deposit products often have maturities that extend one or more years into the future. Central has developed standards with respect to the matching of assets and liabilities. In addition, Central uses a combination of static gap and income simulation models to measure and monitor interest rate risk exposure under various interest rate scenarios.

Sensitivity analysis of an interest rate increase and decrease of 100 basis points is illustrated in the table below.

Earnings at risk over the next 12 months as at December 31:

(Dollars)	2010	2009
100 basis point increase	(363,000)	(473,000)
100 basis point decrease	355,000	(76,000)

# Management Discussion and Analysis

## *Management Discussion and Analysis*

Foreign exchange risk is the potential impact on Central's earnings due to currency movements. Central's foreign exchange policies and procedures outline permissible types of transactions, authorizations, limits, and monitoring and reporting requirements. Central is authorized to hold up to \$250,000 CAD in excess of, or short of its foreign currency liabilities. Central's exposure to foreign exchange fluctuations is monitored on a daily basis.

Equity and commodity risk is the potential impact on Central's earnings due to movements in equity and commodity prices. Central does not have significant business activities in equities or commodities and, as such, is not exposed to material risk in these areas.

Management provides quarterly reports to the Board on market risk.

### ***Operational Risk***

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events.

While operational risk can never be fully eliminated, Central manages this type of risk through implementation of a comprehensive set of procedures and policies. Elements include:

- Developing and maintaining a comprehensive system of internal controls, encompassing segregation of functional activities, managerial reporting and delegation of authority
- Striving to maintain industry best practices in the area of operational risk management through continued monitoring and evaluation of our practices
- Selection and training of highly qualified staff, supported by policies that provide for skills upgrading, clear authorization levels and adherence to an employee code of conduct
- Maintaining adequate insurance to reduce the impact of any potential losses, supported by a detailed business continuity plan

### ***Strategic Risk***

Strategic risk is the risk of loss due to failure to create, implement and monitor an effective strategic plan, including procedures for the development and review of new business initiatives and changing business circumstances.

Strategic priorities for the next 12-18 months are established during the Annual Board and Management Planning Session. Management then develops the annual business plan for approval by the Board. Management reports to the Board on the progress towards achieving the annual business plan at each regular Board meeting. Credit unions are also provided with regular progress reports.

**CREDIT UNION CENTRAL OF NOVA SCOTIA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**



# Management's Responsibility for Financial Statements

## *Management's Responsibility for Financial Statements*

Management has the responsibility of preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board of Directors has appointed an Audit Committee to review the annual financial statements with management and auditors before final approval by the Board.

Both the federal and provincial regulators of financial institutions may conduct examinations and make such enquiries into the affairs of Credit Union Central of Nova Scotia (Central) and its subsidiary as they deem necessary to ensure the safety of depositors and members of Central and to ensure that Central is in sound financial condition. Their findings are reported directly to management.

Grant Thornton LLP, the independent auditors, have examined the consolidated financial statements of Credit Union Central of Nova Scotia in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to shareholders.



**Bernie O'Neil**  
President and CEO



**Sharon Arnold, CA**  
Vice-President Finance

# Independent Auditors' Report

## *Independent Auditors' Report*

### **To the Members of Credit Union Central of Nova Scotia**

We have audited the accompanying consolidated financial statements of Credit Union Central of Nova Scotia (Central), which comprises the consolidated balance sheet of as at December 31, 2010, the consolidated statement of income and comprehensive income (loss), changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Central of Nova Scotia as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script.

Grant Thornton LLP  
Chartered Accountants

February 22, 2011  
Halifax, Nova Scotia

# Balance Sheet

## Balance Sheet

December 31

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 34,172,864	\$ 23,970,414
Investments (Note 3)	312,146,088	273,931,250
Loans and mortgages (Note 4)	482,295,018	498,518,019
Accrued interest	4,270,318	4,119,559
Fixed assets (Note 5)	2,895,973	2,878,482
Future income tax asset (Note 15)	833,608	666,445
Other assets	3,692,264	2,554,035
	<u>\$ 840,306,133</u>	<u>\$ 806,638,204</u>
<b>Liabilities</b>		
Deposits (Note 7)	\$ 756,498,568	\$ 721,848,677
Accrued interest	5,705,194	6,514,973
Accounts payable and accrued	9,086,124	9,309,711
Obligations related to mortgages (Note 18)	1,669,567	548,979
Income tax payable	-	46,253
Minority interest in subsidiary (Note 19)	13,986,740	13,986,740
Subordinated debentures (Note 17)	7,102,000	7,102,000
	<u>794,048,193</u>	<u>759,357,333</u>
<b>Members' Equity</b>		
Capital stock (Note 8)	25,665,600	26,053,960
Retained earnings	18,012,974	17,496,866
Accumulated other comprehensive income	2,579,366	3,730,045
	<u>46,257,940</u>	<u>47,280,871</u>
	<u>\$ 840,306,133</u>	<u>\$ 806,638,204</u>

Commitments and contractual obligations (Note 10)  
Subsequent event (Note 20)

Approved:

On Behalf of the Board:



Bernie O'Neil  
President and CEO



Dave MacLean  
Chair



Doug Dewling  
Director

See accompanying notes to the financial statements

# Statements of Income and Comprehensive Income (Loss)

## *Statements of Income and Comprehensive Income (Loss)*

Year Ended December 31

	2010		2009
<b>Financial income</b>			
Interest on investments	\$ 6,597,532	\$	8,142,790
Interest on loans and mortgages	26,394,665		27,707,649
	<b>32,992,197</b>		35,850,439
<b>Financial expense</b>	<b>15,609,738</b>		21,124,831
Gross financial margin	<b>17,382,459</b>		14,725,608
Provision for losses (recovery)	<b>(8,303)</b>		(107,803)
Net financial margin	<b>17,390,762</b>		14,833,411
Other financial income	<b>867,581</b>		1,034,882
Net financial income	<b>18,258,343</b>		15,868,293
Other income (Note 14)	<b>6,650,062</b>		8,577,179
	<b>24,908,405</b>		24,445,472
<b>Operating expenses</b>			
Salaries and staff related	<b>9,205,395</b>		9,095,171
Office expense	<b>2,370,223</b>		2,262,960
Marketing and business development	<b>756,213</b>		745,357
Democracy	<b>839,884</b>		970,140
Professional fees	<b>621,011</b>		433,059
Other expenses	<b>381,089</b>		759,694
	<b>14,173,815</b>		14,266,381
Operating income	<b>10,734,590</b>		10,179,091
Distributions to Credit Unions	<b>8,359,072</b>		6,116,078
Income before taxes and minority interest	<b>2,375,518</b>		4,063,013
Income taxes (Note 15)	<b>868,589</b>		1,263,454
<b>Net income before minority interest</b>	<b>1,506,929</b>		2,799,559
Minority Interest in earnings of subsidiary	<b>419,602</b>		419,602
<b>Net income</b>	<b>\$ 1,087,327</b>	\$	2,379,957
Net income	<b>\$ 1,087,327</b>	\$	2,379,957
Other comprehensive income (loss)			
Net change in unrealized gains (losses)			
on available for sale investments, net of tax	<b>(1,150,679)</b>		1,121,496
<b>Comprehensive income (loss)</b>	<b>\$ (63,352)</b>	\$	3,501,453

See accompanying notes to the financial statements

# Statements of Changes in Members' Equity

## *Statements of Changes in Members' Equity*

### Year Ended December 31

	2010	2009	2010	2009
	<b>Number of Shares</b>			
<b>Common shares</b>				
Balance at beginning of year	2,200,013	2,144,058	\$ 22,000,130	\$ 21,440,580
Issued	800	55,978	8,000	559,780
Redeemed	(43,825)	(23)	(438,250)	(230)
Balance at end of year	<u>2,156,988</u>	<u>2,200,013</u>	<u>\$ 21,569,880</u>	<u>\$ 22,000,130</u>
<b>Class A shares</b>				
Balance at beginning of year	405,383	380,457	\$ 4,053,830	\$ 3,804,570
Issued	4,199	24,926	41,990	249,260
Redeemed	(10)	-	(100)	-
Balance at end of year	<u>409,572</u>	<u>405,383</u>	<u>\$ 4,095,720</u>	<u>\$ 4,053,830</u>
<b>Capital stock</b>			<u>\$ 25,665,600</u>	<u>\$ 26,053,960</u>
<b>Retained earnings</b>				
Balance at beginning of year			\$ 17,496,866	\$ 16,901,436
Net Income			1,087,327	2,379,957
Dividends (net of income tax recovery of \$211,273; 2009 - \$660,031)			(571,219)	(1,784,527)
Balance at end of year			<u>\$ 18,012,974</u>	<u>\$ 17,496,866</u>
<b>Accumulated other comprehensive income (loss)</b>				
Balance at beginning of year			\$ 3,730,045	\$ 2,608,549
Unrealized (losses) gains on AFS investments, net of tax			(1,150,679)	1,121,496
Balance at end of year			<u>\$ 2,579,366</u>	<u>\$ 3,730,045</u>
<b>Members' equity</b>			<u>\$ 46,257,940</u>	<u>\$ 47,280,871</u>

See accompanying notes to the financial statements

# Statement of Cash Flows

## *Statement of Cash Flows*

### Year Ended December 31

	2010	2009
Increase (decrease) in cash and cash equivalents		
<b>Operating activities</b>		
Net income	\$ 1,087,327	\$ 2,379,957
Adjustments:		
Depreciation	537,799	530,929
Future income taxes	(167,164)	104,540
Decrease in interest payable	(809,779)	(2,659,549)
Decrease in income taxes payable	(46,253)	(245,094)
Other items, net	(2,663,253)	3,919,951
	<b>(2,061,323)</b>	<b>4,030,734</b>
<b>Financing activities</b>		
Obligations related to mortgages, net	1,120,588	(681,314)
Net increase (decrease) in deposits	34,649,891	(54,245,562)
Net proceeds from (redemptions) issuance of capital	(388,360)	808,810
Dividends paid	(571,219)	(1,784,527)
	<b>34,810,900</b>	<b>(55,902,593)</b>
<b>Investing activities</b>		
Net (increase) decrease in investments	(38,214,838)	76,638,783
Net (increase) decrease in loans and mortgages	16,223,001	(26,354,682)
Fixed assets, net	(555,290)	(574,536)
	<b>(22,547,127)</b>	<b>49,709,565</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,202,450</b>	<b>(2,162,294)</b>
<b>Cash and cash equivalents (net)</b>		
Beginning of year	23,970,414	26,132,708
End of year	<b>\$ 34,172,864</b>	<b>\$ 23,970,414</b>
<b>Supplemental disclosure of cash flow information</b>		
Amount of interest paid in year	\$ 16,419,517	\$ 23,784,380
Amount of income taxes paid in year	1,012,848	1,475,495

See accompanying notes to the financial statements

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### **1. Summary of significant accounting policies**

The financial statements have been prepared in accordance with accounting practices generally accepted in Canada.

#### ***Consolidation***

The consolidated financial statements include the accounts of the subsidiary, League Savings and Mortgage Company (League Savings). Significant inter-company transactions and account balances have been eliminated from the consolidated accounts.

#### ***Changes in accounting standards***

In June 2009, the AcSB issued amendments to Section 3862, Financial Instruments – Disclosures, to enhance disclosure requirements for the inputs used in fair value measurements, as well as liquidity risk. The amendments are effective for the Company's annual financial statements as at December 31, 2009. The amendments have no impact on how the Company determines the fair value of financial instruments; however, they require additional disclosures. Since the amendments pertain to disclosure requirements only, they had no significant impact on the Company's results or financial position.

#### ***Use of estimates***

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### ***Financial instruments***

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as held-for-trading (HFT), available for sale (AFS), held-to-maturity (HTM) or loans and receivables (L&R). Financial liabilities are required to be classified as held-for-trading or other financial liabilities (OFL). All financial instruments, including all derivatives, are measured at fair value on the balance sheet with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are reported in earnings, while the changes in value of available for sale financial assets are reported within Other Comprehensive Income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the balance sheet as a separate component of Members' Equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets. The Company has classified its financial instruments as follows:

HFT	Cash
AFS	Investments
L&R	Loans and mortgages
OFL	Borrowings, deposits, accrued interest, payables and subordinated debentures

#### ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, and balances with financial institutions.

#### ***Investments***

Investments have been designated as available for sale. Investments are initially recorded at cost with premiums and discounts amortized to maturity. Investments are reported at market value with any unrealized gains or losses reported in OCI.

Investment income is recognized on an accrual basis. Realized gains and losses on the disposal of securities are included in investment income. All securities are held for investment purposes.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### **Loans and mortgages**

Loans and mortgages have been designated as loans and receivables. Loans and mortgages are net of allowances established to recognize anticipated losses. The amount provided for anticipated loan losses is determined by reference to specific loans or mortgages in arrears and by the judgement of management.

A general allowance has been established to provide for losses on loans and mortgages where past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be specifically identified on an account-by-account basis.

Real estate held for resale is carried at the market value of the loan or mortgage foreclosed, adjusted for estimates of revenues to be received and costs to be incurred subsequent to foreclosure, and the estimated net proceeds from the sale of the assets.

### **Revenue recognition**

Interest accrued on loans and mortgages is recognized in earnings except where a loan or mortgage is classified as impaired. Loans and mortgages are classified as impaired at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal or interest, or when interest or principal is contractually past due 90 days, unless the loan or mortgage is both well secured and in the process of collection. Interest received on an impaired loan or mortgage is recognized in earnings only if there is no longer doubt as to the collectibility of principal.

The subsidiary company periodically sells mortgages. Gains or losses, net of a servicing fee, are recognized on transfers of mortgages to other parties when the Company has transferred the significant risks and rewards of ownership.

Servicing fees are calculated as a percentage of the carrying value of the mortgages as at the date of sale. A servicing liability is recognized as a deferred administration fee and is recorded on the balance sheet under Obligations related to mortgages. This deferred administration fee is amortized to other income over the average term of the mortgages sold.

### **Mortgage securitization**

The Central's mortgage securitization program expands the lending capacity of League Savings and Mortgage Company, whereby eligible mortgages are financed by external investors through an independent securitization vehicle.

These transactions are accounted for as sales when the significant risks and rewards of ownership have been transferred and there is reasonable assurance regarding the measurement of the consideration derived from the sale. No gain or loss on the initial sale has been recorded by the Company as a result of these transactions. Fees earned to service the securitized mortgages are recognized as services are provided and reported in earnings as other income.

The Securitization Agreement provides for the payment to the Company of the deferred proceeds of sale when the interest collected from borrowers exceeds the yield paid to investors on the assets, credit losses, and other costs.

### **Fixed assets**

Land is carried at cost. Buildings, equipment and improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets at the following rates:

Buildings and improvements	2-10%
Furniture and equipment	20-33%

### **Income taxes**

Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### **International financial reporting standards (IFRS)**

In March 2009, the Canadian Accounting Standards Board (AcSB) reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a federally regulated financial institution the Company is specifically scoped into the definition of a publicly accountable enterprise. As such, the Company will be required to prepare its 2011 financial statements including comparative information for 2010 in compliance with IFRS.

The Company's IFRS implementation project plan includes three phases: (1) Scope, (2) Plan, Design and Build, and (3) Implement and Review. The first two phases have been completed and the third phase is well underway. The standards that are expected to have a significant impact on the Company's recognition, measurement, presentation and disclosure of its financial statements have been identified.

Management has conducted an assessment of the differences between the Company's current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. The assessment included a consideration of:

- Financial statement impact
- Complexity to quantify / amend
- Additional disclosures required
- Impact on capital
- Tax impact
- Impact on systems, processes and controls

In the second phase of the project the Company prepared position papers on the key areas identified as having a potentially significant impact:

- Loan loss provisioning
- Financial instruments
- Employee benefits
- Property plant & equipment
- Securitizations
- Business combinations

These position papers were reviewed and approved by the Audit Committee of the Board in 2010. The third phase of the project, which will continue through 2011, includes the final determination of restated balances as at January 1<sup>st</sup>, 2010 for comparative statements, and the development of new note disclosures for 2011.

Management has determined that the changes are not expected to have a significant impact on reported balances. The greatest impact is expected to be in the nature of additional disclosures.

Managements' analysis of changes and policy decisions reflect accounting standards in effect at the time of the Company's transition. Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board (IASB) in the future. As a result, there is some uncertainty regarding the expected accounting standards that will ultimately be in place as at December 31, 2011, and therefore applicable to the Company's first IFRS financial statements, including comparatives and opening IFRS balance sheet. The Company's IFRS project plan includes activities to ensure management monitors these changes.

### **Comparative figures**

Certain comparative figures have been reclassified to conform with the presentation adopted for 2010.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### **2. Risk management**

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. Authority for all risk-taking activities rests with the Board of Directors (Board), which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The various processes within the Company's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed and controlled. Internal Audit reports independently to the Audit, Risk & Conduct Review Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

The Management Finance Committee (MFC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit risk
- Liquidity
- Interest rate risk
- Foreign exchange
- Investment portfolio
- Derivatives
- Large exposures
- Capital

The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of the Company's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short and long term goals set by the Board.

#### ***Credit Risk***

Credit risk is the potential for loss due to the failure of a borrower, endorser or guarantor to fulfill its payment obligation to the Company.

The Company has established policies and procedures for credit risk management. Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals, and a realistic loan allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval, and periodically thereafter. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of management.

The Company maintains both specific and general allowances for credit losses. Specific allowances are established based on management's knowledge of the property and prevailing conditions. General allowances are maintained to

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The general allowance is determined based on the Company's risk weighted portfolio and other factors including an assessment of market risk.

Management regularly monitors the Company's credit risk and reports to the Board on a quarterly basis.

### **Liquidity Risk**

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Company has established policies to ensure the Company is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

The Company's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Scenario testing and contingency planning

Management monitors the Company's liquidity position daily and reports to the Board on a quarterly basis.

### **Market Risk**

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually.

The Company uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The Company has developed standards regarding the use of derivative products.

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. The Company's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. The Company manages and controls interest rate risk primarily by managing asset/ liability maturities; however, off-balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

The Company measures interest rate risk through a combination of gap and simulation analysis on a quarterly basis. Gap analysis measures the difference between the amount of assets and liabilities repricing in specific time periods. Income simulation models are used to measure interest rate exposure under various assumptions about interest rates, products, volumes and pricing.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at Risk over the next 12 months as at December 31:

(Dollars)	2010	2009
100 basis point increase	(363,000)	(473,000)
100 basis point decrease	355,000	(76,000)

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on the Company's maximum exposure to interest rate risk, and the Company's earnings at risk were within this limit.

### 3. Investments

	2010 Cost	2010 Market Value	2009 Cost	2009 Market Value
Bank paper	\$ 107,106,238	\$ 107,719,334	\$ 93,805,885	\$ 95,088,314
Provincial and provincially guaranteed bonds	17,102,869	17,814,038	22,417,787	24,335,710
Corporate bonds	56,035,629	56,566,309	45,043,602	45,684,804
Co-operative deposits	124,230,290	124,538,639	103,135,303	103,524,409
Co-operative securities	4,165,967	4,165,968	4,107,749	4,160,853
Corporate shares	112,961	1,341,800	112,961	1,137,160
	\$ 308,753,954	\$ 312,146,088	\$ 268,623,287	\$ 273,931,250

# Notes to Financial Statements – December 31, 2010

## Notes to Financial Statements – December 31, 2010

### 4. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance <small>(included in total allowance)</small>	Net Loans
<b>2010</b>					
Insured residential mortgages	\$ 333,297,994	\$ -	\$ 475,204	\$ -	\$ 332,822,790
Uninsured residential mortgages	130,430,639	141,827	472,122	9,283	129,958,517
Loans & non-residential mortgages	67,708,415	1,128,953	1,154,482	305,866	66,553,933
Lines of credit	7,956,849	-	-	-	7,956,849
Real estate held for sale	819,944	-	-	-	819,944
	<b>540,213,841</b>	<b>1,270,780</b>	<b>2,101,808</b>	<b>315,149</b>	<b>538,112,033</b>
Less: under administration:					
Residential insured	51,868,986	-	-	-	51,868,986
Residential unisured	3,948,029	-	-	-	3,948,029
	<b>55,817,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,817,015</b>
	<b>\$ 484,396,826</b>	<b>\$ 1,270,780</b>	<b>\$ 2,101,808</b>	<b>\$ 315,149</b>	<b>\$ 482,295,018</b>
<b>2009</b>					
Insured residential mortgages	\$ 329,363,233	\$ -	\$ 495,270	\$ -	\$ 328,867,963
Uninsured residential mortgages	136,350,056	532,269	512,565	50,438	135,837,491
Loans & non-residential mortgages	66,112,860	-	977,641	-	65,135,219
Lines of credit	18,078,035	-	-	-	18,078,035
Real estate held for sale	1,053,242	-	-	-	1,053,242
	<b>550,957,426</b>	<b>532,269</b>	<b>1,985,476</b>	<b>50,438</b>	<b>548,971,950</b>
Less: under administration:					
Residential insured	46,823,397	-	-	-	46,823,397
Residential unisured	3,630,534	-	-	-	3,630,534
	<b>50,453,931</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,453,931</b>
	<b>\$ 500,503,495</b>	<b>\$ 532,269</b>	<b>\$ 1,985,476</b>	<b>\$ 50,438</b>	<b>\$ 498,518,019</b>

#### Continuity of allowance for loan losses

	2010	2009
Allowance, beginning of year	\$ 1,985,476	\$ 2,282,314
Write-offs	-	(189,035)
Recoveries	124,635	-
Loan loss provisions (recoveries)	(8,303)	(107,803)
Allowance, end of year	<b>\$ 2,101,808</b>	<b>\$ 1,985,476</b>

The following is an analysis of loans that are impaired or may become impaired based on the age of repayments outstanding:

	2010	2009
31 to 60 days	\$ 1,875,327	\$ 770,764
61 to 90 days	137,894	417,709
91 to 120 days	1,201,647	244,708
over 120 days	33,457	207,477
	<b>\$ 3,248,325</b>	<b>\$ 1,640,658</b>

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### 5. Fixed assets

	2010		2009	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 351,522	\$ -	\$ 351,522	\$ 351,522
Buildings and improvements	4,153,129	2,217,570	1,935,559	1,857,458
Furniture and equipment	5,666,386	5,057,494	608,892	669,502
	<b>\$ 10,171,037</b>	<b>\$ 7,275,064</b>	<b>\$ 2,895,973</b>	<b>\$ 2,878,482</b>

### 6. Credit facilities

The Company has established an operating line of credit of \$4,000,000 with the Bank of Nova Scotia, an operating line of credit of \$25,000,000 with Central1 and a \$10,000,000 operating line of credit with a total exposure limit of \$132,690,000 with Credit Union Central of Canada. Each line of credit bears interest at the institutions prime lending rate. As security the Company has provided an assignment of marketable securities having a carrying value of \$29,000,000 and an assignment of its share capital held in Credit Union Central of Canada. At December 31, 2009 the amount outstanding on these facilities was nil (2009 - nil).

In 2010 League Savings also established a line of credit with Central 1 secured by an assignment of insured residential mortgages, bearing interest at prime, up to an amount of \$25,000,000. At December 31, 2010 the amount outstanding on this facility was nil.

### 7. Deposits

	2010	2009
Credit union demand deposits	\$ 39,703,336	\$ 35,421,002
Credit union liquidity deposits	219,152,984	204,343,487
Registered	7,497,923	7,402,181
Other deposits	6,264,478	5,891,488
Total demand	<b>272,618,721</b>	<b>253,058,158</b>
Registered	164,775,854	162,491,883
Other term deposits	319,103,993	306,298,636
Total term	<b>483,879,847</b>	<b>468,790,519</b>
	<b>\$ 756,498,568</b>	<b>\$ 721,848,677</b>

### 8. Capital stock

Authorized capital stock is as follows:

#### Authorized:

Common shares	Unlimited common shares with no par value
Class A shares	10,000,000 Class A non-voting shares with no par value

The consideration for any shares issued or redeemed is cash.

# Notes to Financial Statements – December 31, 2010

## Notes to Financial Statements – December 31, 2010

### 9. Related party transactions

During the normal course of operations the Company and the subsidiary, League Savings and Mortgage Company, transact business with League Data Limited, a company subject to significant influence as a result of common credit union ownership. These transactions are measured at the exchange amount and are as follows:

	2010	2009
Income and fees related to the management contract	\$ 60,000	\$ 60,000
Rental and other income	99,904	100,704
Services and equipment purchases from League Data Limited	359,402	341,198
Deposits held by Central	6,587,312	6,248,472
Amount payable to League Data Limited	26,800	13,198

### 10. Commitments and contractual obligations

#### a) *Approved mortgages*

At December 31, 2010 the Company had approved mortgages in the amount of \$10,030,070 (2009 - \$18,491,814) which have not been advanced.

#### b) *Clearing and settlement agreement*

The Company has entered into a contract for clearing and settlement arrangements. The contract expires in July 2013. Pricing is subject to annual adjustment each July 1st based on the average change in Consumer Price Index in the preceding 12 month period.

#### c) *Interest rate swap agreements*

The Company, as intermediary for certain credit unions, has entered into various interest rate swap agreements in order that the credit unions may manage their exposure to interest rate fluctuations. The terms of the agreements provide that the Company pay a fixed interest rate on notional principal amounts due to mature in the future in exchange for variable or short term interest rate returns on these same amounts. In turn, reciprocal interest rate swap agreements have been entered into with the respective credit unions. There were no interest rate swap agreements outstanding at December 31, 2010.

#### d) *Foreign exchange forward agreements*

The Company, as intermediary for certain credit unions, has entered into various forward agreements in order that the credit unions may manage their exposure to foreign currency fluctuations. The terms of the agreements provide that the Company buy or sell a fixed amount of foreign currency, at a fixed exchange rate, on a specified future date. In turn, a reciprocal agreement is entered into with the credit unions, to sell or buy the same amount of foreign currency on the same dates. There were no forward rate agreements outstanding at December 31, 2010.

#### e) *Rental of premises*

The Company is committed to pay annual lease payments for rental space for premises as follows:

	2011	2012
	\$ 94,829	\$ 30,990

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### 11. Capital requirements

The Company manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions (OSFI), which require the Central and League Savings and Mortgage Company to maintain capital ratios that are adequate in relation to their levels of business activity. For the Central, OSFI prescribes a liabilities to capital borrowing multiple not to exceed 20 times capital.

League Savings and Mortgage Company is subject to guidelines OSFI has issued based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors. OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective for League Savings in 2008. Pillar 1 of the Basel II framework defines minimum capital requirements, while Pillar 2 addresses standards for the management of capital requirements.

Capital requirements are determined based on exposures to credit risk, operational risk, and for entities with significant trading activity, market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. League Savings has implemented the Standardized Approach for credit risk, and the Basic Indicator Approach (BIA) for operational risk. The Company is not subject to the requirements for market risk.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 comprises the more permanent components of capital and consists primarily of common shares, non-cumulative preferred shares, retained earnings and contributed surplus. Tier 2 capital, which is primarily composed of subordinated notes, is limited to 50% of Tier 1. Based on Pillar 1 of the Basel II framework, OSFI has established two standards: maximum assets to capital multiple and a minimum risk based capital ratio. The first test provides an overall measure of the adequacy of a Company's capital. The second measure focuses on risk faced by the Company.

Pillar 2 of the Basel II framework requires that institutions have a process in place to make an internal assessment of its overall capital position relative to its own unique circumstances and risk profile. This process, referred to as ICAAP, is approved by the League Savings Board. The Company's internal capital requirements have been calculated in accordance with the approved ICAAP. In particular, the Company's internal capital limits are adjusted based on an annual assessment of the Company's risk profile as identified in an Enterprise Risk Management framework.

Capital ratios are monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually. At December 31, capital ratios and assets to capital multiple were as follows:

	<u>2010</u>	<u>2009</u>
<b>Central:</b>		
Maximum borrowing multiple	<b>20</b>	20
Actual borrowing multiple	<b>12.6</b>	11.1
<b>League Savings and Mortgage Company:</b>		
OSFI Statutory Tier 1 minimum	<b>4%</b>	4%
OSFI Target Tier 1 minimum	<b>7%</b>	7%
Actual Tier 1 ratio	<b>19.9%</b>	20.1%
Tier 1 ICAAP Requirement	\$ <b>14,964,000</b>	\$ 14,436,000
Actual Tier 1 Capital	\$ <b>28,893,000</b>	\$ 28,423,000
OSFI Statutory Total Capital minimum	<b>8%</b>	8%
OSFI Target Total Capital minimum	<b>10%</b>	10%
Actual Total Capital ratio	<b>24.9%</b>	25.2%
OSFI Maximum Capital Multiple	<b>20</b>	20
Actual Capital Multiple	<b>13.4</b>	13.2
Total Capital ICAAP Requirement	\$ <b>19,314,000</b>	\$ 18,640,000
Actual Total Capital	\$ <b>36,059,000</b>	\$ 35,568,000

The Company's capital ratios have been in compliance with the regulatory requirements throughout the year.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### 12. Assets under administration

#### (a) *Mortgages and mutual funds*

Assets under administration include mortgages under administration and a mutual fund portfolio, which are not the property of the Company and are not reflected in the balance sheet.

#### (b) *Syndicated loans*

The Company provides a loan syndication program for Credit Unions. These loans, which are under the Company's administration, are not the property of the Company and are not reflected on the balance sheet. Although most of the loan syndications are purchased by credit unions, the Company can be a participant if a loan is not fully subscribed to by credit unions.

When the Company participates in the loan syndication, the amount is included in loans and mortgages on the balance sheet as "Non-residential". Where a fully subscribed loan syndication has not been distributed to credit unions, the undistributed amount is also included in loans and mortgages as "Non-residential".

Assets under administration at December 31 were as follows:

	<u>2010</u>		<u>2009</u>
Mortgages	\$ 55,817,015	\$	50,453,931
Mutual funds	-		2,692,876
Syndicated loans	29,918,434		19,404,840
included in Non-residential	579,644		766,002

### 13. Financial instruments

#### a) *Interest rate risk*

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of balance sheet instruments by the earlier of the contractual repricing or maturity dates.

An estimate of prepayments has been determined by management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

# Notes to Financial Statements – December 31, 2010

## Notes to Financial Statements – December 31, 2010

(Reported in \$000's)

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate %
<b>2010</b>							
<b>Assets</b>							
Cash and investments	\$ 164,622	\$ 90,904	\$ 84,670	\$ 1,261	\$ 4,862	\$ 346,319	1.97
Loans and mortgages	30,958	72,768	380,420	-	(1,851)	482,295	5.37
Other assets	-	-	-	-	11,692	11,692	
	<b>\$ 195,580</b>	<b>\$ 163,672</b>	<b>\$ 465,090</b>	<b>\$ 1,261</b>	<b>\$ 14,703</b>	<b>\$ 840,306</b>	
<b>Liabilities and equity</b>							
Deposits	\$ 186,804	\$ 291,248	\$ 238,744	\$ -	\$ 39,703	\$ 756,499	1.94
Other liabilities	-	-	-	-	28,777	28,777	
Obligations related to mortgages	-	-	-	-	1,670	1,670	
Equity and subordinated debentures	-	-	-	-	53,360	53,360	
	<b>\$ 186,804</b>	<b>\$ 291,248</b>	<b>\$ 238,744</b>	<b>\$ -</b>	<b>\$ 123,510</b>	<b>\$ 840,306</b>	
Subtotal	\$ 8,776	\$ (127,576)	\$ 226,346	\$ 1,261	\$ (108,807)	\$ -	
Prepayment estimate	14,266	42,797	(57,063)	-	-	-	
Excess (deficiency)	<b>\$ 23,042</b>	<b>\$ (84,779)</b>	<b>\$ 169,283</b>	<b>\$ 1,261</b>	<b>\$ (108,807)</b>	<b>\$ -</b>	

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate %
<b>2009</b>							
<b>Assets</b>							
Cash and investments	\$ 118,122	\$ 86,831	\$ 84,695	\$ 1,261	\$ 6,993	\$ 297,902	2.30
Loans and mortgages	40,387	72,727	387,012	-	(1,608)	498,518	5.54
Other assets	-	-	-	-	10,218	10,218	
	<b>\$ 158,509</b>	<b>\$ 159,558</b>	<b>\$ 471,707</b>	<b>\$ 1,261</b>	<b>\$ 15,603</b>	<b>\$ 806,638</b>	
<b>Liabilities and equity</b>							
Deposits	\$ 162,201	\$ 296,511	\$ 227,716	\$ -	\$ 35,421	\$ 721,849	2.04
Other liabilities	-	-	-	-	29,857	29,857	
Obligations related to mortgages	-	-	-	-	549	549	
Equity and subordinated debentures	-	-	-	-	54,383	54,383	
	<b>\$ 162,201</b>	<b>\$ 296,511</b>	<b>\$ 227,716</b>	<b>\$ -</b>	<b>\$ 120,210</b>	<b>\$ 806,638</b>	
Subtotal	\$ (3,692)	\$ (136,953)	\$ 243,991	\$ 1,261	\$ (104,607)	\$ -	
Prepayment estimate	14,513	43,539	(58,052)	-	-	-	
Excess (deficiency)	<b>\$ 10,821</b>	<b>\$ (93,414)</b>	<b>\$ 185,939</b>	<b>\$ 1,261</b>	<b>\$ (104,607)</b>	<b>\$ -</b>	

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### **b) Interest rate swap agreements**

The Company may enter into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. There were no interest rate swap agreements outstanding at December 31.

### **c) Fair value**

The following table presents the fair value of on and off balance sheet financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment. In addition, items such as the value of intangible assets such as customer relationships which, in management's opinion add significant value to the Company, are not included in the disclosures below.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Company's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. For investments, corporate shares are valued using quoted market prices (Level 1); bank paper, bonds and co-operative deposits are valued using market prices provided by 3rd party brokers (Level 2); and co-operative securities are carried at cost.

There have been no transfers between Level 1 and 2 during the year.

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, and deposits, the fair value is calculated using a discounted cash flow model, based on weighted average interest rates and the term to maturity of the instrument. The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

	2010		2009	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 34,172,864	\$ 34,172,864	\$ 23,970,414	\$ 23,970,414
Investments	308,753,954	312,146,088	268,623,287	273,931,250
Loans and mortgages	482,295,018	482,809,986	498,518,019	501,499,719
Accrued interest	4,270,318	4,270,318	4,119,559	4,119,559
<b>Liabilities</b>				
Deposits	\$ 756,498,568	\$ 765,193,819	\$ 721,848,677	\$ 734,165,469
Accrued interest	5,705,194	5,705,194	6,514,973	6,514,973
Obligations related to mortgages	1,669,567	1,669,567	548,979	548,979

### 14. Other income

Other income includes the following:

	2010	2009
Financial services	\$ 2,447,286	\$ 2,600,386
Member assessments	2,593,953	2,891,392
Management fees	60,000	60,000
Fee for service	937,750	849,509
Printing	310,882	271,612
Rentals	98,308	100,862
Other	201,883	1,803,418
	<u>\$ 6,650,062</u>	<u>\$ 8,577,179</u>

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### 15. Income taxes

The components of income tax expense (recoveries) are as follows:

	2010		2009
Current income taxes	\$ 1,035,753	\$	1,158,914
Future income taxes	(167,164)		104,540
Income taxes	<u>\$ 868,589</u>	<u>\$</u>	<u>1,263,454</u>

The components of the future income tax asset are as follows:

	2010		2009
Future income tax assets			
Property, plant and equipment	\$ 29,812	\$	18,339
Allowance for impaired loans	566,611		625,203
Losses carried forward	150,318		-
Other	125,264		54,303
Total future income tax assets	<u>\$ 872,005</u>	<u>\$</u>	<u>697,845</u>
Future income tax liabilities			
Property and equipment	26,433		-
Unrealized gains on investments	\$ 9,216	\$	25,602
Other	2,748		5,798
Total future income tax liabilities	<u>\$ 38,397</u>	<u>\$</u>	<u>31,400</u>
Net future income tax asset	<u>\$ 833,608</u>	<u>\$</u>	<u>666,445</u>

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2010		2009
Income before income taxes	\$ 2,375,518	\$	4,063,013
Statutory income tax rate	43.39%		43.41%
Expected income tax	<u>1,030,669</u>		<u>1,763,908</u>
Effect on income tax of:			
General rate reduction credit	(140,560)		(134,620)
Nova Scotia Capital tax, net of related tax impact	17,423		28,399
New Brunswick Capital tax, net of related tax impact	82,853		91,716
Credit Union tax credit	(117,232)		(327,698)
Non-taxable dividends and non-capital losses	(60,798)		(201,865)
Permanent tax differences	21,166		22,725
Rate adjustments and other	35,068		20,889
Total income tax expense	<u>\$ 868,589</u>	<u>\$</u>	<u>1,263,454</u>

# Notes to Financial Statements – December 31, 2010

## Notes to Financial Statements – December 31, 2010

### 16. Segmented information

Credit Union Central of Nova Scotia provides financial and trade services to credit unions, while the subsidiary, League Savings and Mortgage Company, provides lending and investment services. Since 2004 the Company has also provided support for the credit union systems' Initiatives<sup>6</sup>. Results for the Company's major segments are based on the Company's internal financial reporting systems.

	Central		LS&M		Total	
<b>2010</b>						
Financial income	\$	4,787,371	\$	13,470,972	\$	18,258,343
Financial services fees		2,176,985		260,301		2,437,286
Other income		4,174,341		38,435		4,212,776
		<b>11,138,697</b>		<b>13,769,708</b>		<b>24,908,405</b>
Operating expenses		6,997,648		7,176,167		14,173,815
Rebates /distributions		3,359,502		4,999,570		8,359,072
		<b>10,357,150</b>		<b>12,175,737</b>		<b>22,532,887</b>
Income before taxes and minority interest	\$	<b>781,547</b>	\$	<b>1,593,971</b>	\$	<b>2,375,518</b>
<b>2009</b>						
Financial income	\$	4,089,442	\$	11,778,851	\$	15,868,293
Financial services fees		1,923,105		677,281		2,600,386
Other income		5,943,240		33,553		5,976,793
		<b>11,955,787</b>		<b>12,489,685</b>		<b>24,445,472</b>
Operating expenses		7,240,965		7,025,416		14,266,381
Rebates /distributions		2,350,000		3,766,078		6,116,078
		<b>9,590,965</b>		<b>10,791,494</b>		<b>20,382,459</b>
Income before taxes and minority interest	\$	<b>2,364,822</b>	\$	<b>1,698,191</b>	\$	<b>4,063,013</b>

### 17. Subordinated debentures

Series B debentures are unsecured and subordinated to all other indebtedness of the Company. The minimum interest rate is equal to 1.5 times the dividend rate on the Preferred A shares. Series B debentures are convertible into Preferred A shares at the option of the holder and redeemable at the option of the Company after the fifth anniversary of the date of issue, subject to the approval of the Office of the Superintendent of Financial Institutions.

	Maturity Date	Earliest Redemption	2010		2009	
			Issued	Amount	Issued	Amount
Series B	December 31, 2024	December 31, 2009	7,102	\$ 7,102,000	7,102	\$ 7,102,000

During the year there were no subordinated debentures issued or redeemed.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### 18. Obligations related to mortgages

Obligations related to mortgages consist of the deferred administration fee on mortgage sales and monthly remittances due to the purchaser. The balances outstanding at December 31 are as follows:

	2010	2009
Deferred income	\$ -	\$ -
Monthly remittances due	1,669,567	548,979
Obligations related to mortgages	<u>\$ 1,669,567</u>	<u>\$ 548,979</u>

### 19. Minority interest

The minority interest represents the par value of the Preferred A shares of League Savings and Mortgage Company.

### 20. Subsequent Event

Pursuant to a Definitive Combination Agreement dated June 30, 2010, on January 1, 2011 the Company purchased the assets and assumed the liabilities of Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island. With the proclamation of amended Credit Union legislation in each of Nova Scotia, New Brunswick and Prince Edward Island, the three Centrals have completed a business combination to form "Atlantic Central". Atlantic Central is the continuance of Credit Union Central of Nova Scotia and will be owned by credit unions in the Atlantic Provinces.

The transaction will be completed in four steps:

#### 1. Pre-closing

- New classes of shares created, including provincial class shares and Class B shares.
- Class NS and Class NL shares distributed to the shareholders of record as at December 31, 2010, by way of a stock dividend.
- Class A shares exchanged for common shares.
- Class A shares cancelled.

#### 2. Closing

- Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island transfer assets and liabilities at fair value to the Atlantic Central, in exchange for Common, Class NB and Class PEI shares

#### 3. Post-closing

- NB and PEI Centrals distribute the common, Class NB and Class PEI shares to their members in exchange for shares in Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island.
- The NB and PEI Centrals continue to exist until the companies are wound up in 2011.

# Notes to Financial Statements – December 31, 2010

## *Notes to Financial Statements – December 31, 2010*

### **4. Rebalancing**

- Atlantic Central maintains a specific level of equity and capital – a total of 8% of assets - made up of 1.7% equity (excluding AOCI) and 6.3% share capital.
- To achieve this level of equity and capital, and to achieve each member credit union's proportionate share of ownership, each credit union's holdings in the various classes of shares will be increased or reduced by way of share subscriptions or redemptions.

The valuations of the assets and liabilities acquired by the Company and the rebalancing of shareholdings are not known at this time and will be completed early in 2011.

# Corporate Governance

## Corporate Governance

Effective corporate governance remains a priority at Credit Union Central of Nova Scotia. Sound governance and ethical behaviour benefits not only our shareholders, but all stakeholders including credit unions, credit union customer-owners and our employees.

Our Board of Directors is responsible for overseeing the management of the business and affairs of Central and for providing effective leadership to the credit union network with the objective of enhancing both shareholder and stakeholder value. The directors are responsible for maintaining a high standard of governance and ensuring the ongoing review and assessment of our governance system.

### Board Composition

The Board of Directors of Credit Union Central of Nova Scotia consists of 11 representatives, elected by delegates in each of the seven credit union districts.

One delegate is elected from the following districts: District 2 (Inverness and Richmond Counties); District 3 (Antigonish, Guysborough, Cumberland and Pictou Counties); District 6 (Newfoundland and Labrador Central Alliance) and District 7 (Credit Union Central of Newfoundland and Labrador).

District 1 (Cape Breton County) and District 5 (Annapolis, Kings, Lunenburg, Queens, West Hants, Digby and Yarmouth Counties) elect two directors and District 4 (Halifax and East Hants Counties) elects three directors. None of the directors are members of Central's management.

The following individuals serve as the Board of Directors:



Jim Johnson  
Chair



Raymond Surette  
1st Vice-Chair



Doug Dewling  
2nd Vice-Chair



Paul Newman



John Peach



Jim MacFarlane



Irene Caswell



Earl Goski



Kevin MacAdam



Michael Maclsaac



Ron Andrews

The Board meets at least once each fiscal quarter. It also meets at other times when matters requiring its approval are raised and cannot wait for the next quarterly meeting. The Board of Directors met ten times in 2010.

### Committees of the Board

The Board has established four standing committees: Executive; Audit, Risk and Conduct Review; Governance and System Credit.

*Executive Committee:* Its six members include the Board Chair, 1st Vice-Chair and 2nd Vice-Chair and three directors elected by a vote of the Board. This committee is responsible for addressing matters between scheduled Board meetings that require immediate attention. The committee also acts as a Compensation Committee. In this capacity, the committee makes recommendations to the Board on the President and CEO's compensation and evaluation, and for the annual approval of the variable compensation plan.

*Committee Members:* Jim Johnson (Chair), Ray Surette (1st Vice-Chair), Doug Dewling (2nd Vice-Chair), Jim MacFarlane, Kevin MacAdam and Mike Maclsaac.

*Audit, Risk and Conduct Review Committee:* It is comprised of four members. As an Audit Committee, it is responsible to ensure that management has designed and implemented an effective system of financial management and related internal controls. It reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible to meet periodically with internal and external auditors. As a Risk Committee, it is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for allocation of human, capital and other resources. As a Conduct Review Committee, it is responsible to ensure that management has developed and adheres to conflict of interest and related party procedures.

*Committee Members:* Paul Newman (Chair), Earl Goski, John Peach and Ron Andrews.

# Corporate Governance

## Corporate Governance

**Governance Committee:** Its eight members are responsible for reviewing and recommending changes, as appropriate, to the governance structure of Central. In addition, this committee ensures Board decisions and positions are appropriately translated into documented policies. The committee reviews minutes of meetings, interprets the Board's position on issues and uses management resources in the development of Board policies. Policies developed by the committee are forwarded to the Board for its consideration and approval. The Committee oversees the procedures for nominating and electing Central Directors to ensure compliance with Central's Bylaws and resolves any issues or questions related to this process. The committee is responsible for overseeing the director evaluation process and for establishing and monitoring the orientation program for new directors, as well as the monitoring of ongoing training and development of Board members.

**Committee Members:** Ray Surette (Chair), Kevin MacAdam, Jim MacFarlane, John Peach, Ron Andrews, Michael MacIsaac, Doug Dewling, and Irene Caswell.

**System Credit Committee:** The committee has three members and is responsible for evaluating and approving all loans above the lending limits of management.

**Committee Members:** Jim Johnson (Chair), John Peach and Jim MacFarlane.

### **Mandate of the Board of Directors**

While the Board's fundamental responsibility is to supervise the management of the business and affairs of Central, any responsibility that is not specifically delegated to the President and CEO remains with the Board. In particular, the Board oversees Central's strategic direction to ensure it serves the organization, its member credit unions, employees and communities of Nova Scotia and Newfoundland and Labrador. The Board assumes overall stewardship with respect to Central's mission and values, its long-term objectives and the approval of corporate strategies. Specifically, the Board is responsible for the following:

- The selection, succession and evaluation of the President and CEO, as well as compensation and employment conditions
- Establishing and approving Board policies
- Overseeing Central's internal control framework
- Developing and approving strategic plans for Central
- Providing advice to the President and CEO
- Evaluating the Board's performance and overseeing the ethical, legal and social conduct of the organization
- Reviewing the financial performance and condition of the organization

### **Attendance at Board and Committee Meetings**

The Board of Directors recognizes the importance of each individual director's participation at Board and committee meetings. Every director is expected to attend all Board and committee meetings unless specifically excused by the Chair. The following table sets out the attendance of each Board member at Board and committee meetings throughout 2010.

Name	Board and Planning Session	Audit, Risk & Conduct Review Committee	Executive/HR Committee	Governance Committee	System Credit Committee <sup>†</sup>
Paul Newman <sup>1</sup>	10/10	4/5	1/1	-	
*Doug Dewling <sup>2</sup>	10/10	1/1	4/4	3/3	
Earl Goski <sup>3</sup>	10/10	5/5	-	-	
John Peach <sup>4</sup>	9/10	4/4	-	4/4	
*Jim Johnson <sup>5</sup>	10/10	-	4/4	1/1	
Jim MacFarlane <sup>6</sup>	10/10	-	4/4	4/4	
Michael MacIsaac <sup>7</sup>	10/10	1/1	3/3	3/4	
Kevin MacAdam <sup>8</sup>	10/10	-	3/3	4/4	
*Raymond Surette <sup>9</sup>	10/10	-	4/4	4/4	
Ron Andrews <sup>10</sup>	9/10	5/5	-	4/4	
Irene Caswell <sup>11</sup>	7/10	-	-	3/3	

\*Table Officer

<sup>1</sup> A member of the Audit, Risk & Conduct Review Committee.

<sup>2</sup> A member of the Executive/HR Committee and elected to the Governance Committee in April 2010.

<sup>3</sup> A member of the Audit, Risk & Conduct Review Committee.

<sup>4</sup> A member of the Governance Committee and the Audit, Risk & Conduct Review Committee.

<sup>5</sup> A member of the Executive/HR Committee.

<sup>6</sup> A member of the Executive/HR Committee, and a member of the Governance Committee.

<sup>7</sup> A member of the Governance Committee and elected to the Executive/HR Committee in April 2010.

<sup>8</sup> A member of the Governance Committee and elected to the Executive/HR Committee in April 2010.

<sup>9</sup> A member of the Executive/HR Committee and a member of the Governance Committee.

<sup>10</sup> A member of the Audit, Risk & Conduct Review Committee and a member of the Governance Committee.

<sup>11</sup> Commenced Board term and elected to the Governance Committee in April 2010

<sup>†</sup>The System Credit Committee met as required during the year.

### **Board and Director Evaluations**

As part of its commitment to ongoing development and improvement, the Board of Directors conducts an annual self-evaluation. There are two components to the evaluation: the evaluation of the whole Board and the self-evaluation of each director. The results of these evaluations are used to guide the training and development agenda for the Board in the upcoming year.

### **Evolving Governance Processes**

At Credit Union Central of Nova Scotia, we recognize that our governance standards must evolve to respond to changes in our company, the credit union network, stakeholder expectations and regulatory requirements. The Board monitors ongoing developments in corporate governance practices to ensure that it continues to implement best practices in Central and provide effective governance to the credit union network in Nova Scotia and Newfoundland and Labrador.

# Affiliate Boards

## *Affiliate Boards*

The following are the affiliate boards of Credit Union Central of Nova Scotia, now Atlantic Central, current as of January 2011.

### ***Canadian Co-operative Association***

The Atlantic Central appoints two delegates to the Canadian Co-operative Association. All delegates elect the directors to the Board of CCA. Jim Johnson from the Atlantic Central is a director on the CCA Board representing the Atlantic Provinces, and will serve until the AGM in June, 2011. Marcel Garvie from the Board of Co-op Atlantic is the second director.

### ***League Savings and Mortgage Company***

Atlantic Central is entitled to appoint six members to the League Savings Board. Its current directors are: Marg Harvey, James Gannon, Jim MacFarlane, Raymond Surette, Kevin MacAdam and Doug Dewling. The Directors serve at the pleasure of Atlantic Central.

### ***Northwest & Ethical Investments Inc. (NEI)***

The Atlantic Central owns one common voting share of NEI. Atlantic Central is entitled to elect one director to the Board. The current director for the Atlantic Provinces is Bernie O'Neil (term expires 2012).

### ***Concentra Financial***

The Atlantic Provinces fall under the "minority shareholders" category and are entitled to elect one director to Concentra's Board of Directors. The minority shareholders consist of Central 1, Atlantic Central, and La Federation des caisses populaires du Manitoba. The current director representing the minority shareholders is Robert McVeigh (term expires 2011).

### ***The Co-operators***

The Atlantic Central appoints two delegates. The Atlantic Canadian delegates elect three directors to The Co-operators' Board to represent the Atlantic Region. The present directors are Jim MacConnell (term expires April 2011), Connie Doucette from the Atlantic Central (term expires 2012) and Denis Laverdiere of the La Fédération des caisses populaires acadiennes (term expires 2013).

### ***Credit Union Central of Canada (CUCC)***

Two positions on the CUCC Board are designated for the Atlantic Central. Candidates are to be nominated with the majority support of the Atlantic Central. The present directors are Dave MacLean from Atlantic Central (term expires 2012) and Paul MacNeill from Souris Credit Union (term expires 2013).

### ***League Data***

The President and CEO of Atlantic Central has a dedicated seat on the League Data Board.

### ***Nova Scotia Co-operative Council***

A director to the Nova Scotia Co-operative Council Board is appointed by the Board of Atlantic Central. The Atlantic Central Director is Earl Goski.

**CREDIT UNION CENTRAL OF NOVA SCOTIA**  
**NON-CONSOLIDATED FINANCIAL STATEMENTS**  
DECEMBER 31, 2010

## Management's Responsibility For Financial Statements

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Management has the responsibility of preparing the accompanying non-consolidated financial statements and ensuring that all information in the annual report is consistent with the financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with generally accepted accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board of Directors has appointed an Audit Committee to review the annual non-consolidated financial statements with management before final approval by the Board.

Both the federal and provincial regulators of financial institutions may conduct examinations and makes such enquiries into the affairs of Credit Union Central of Nova Scotia (Central) as they deem necessary to ensure the safety of depositors and members of Central and to ensure that Central is in sound financial condition. Their findings are reported directly to management.

These non-consolidated financial statements, which have not been and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the members of Credit Union Central of Nova Scotia and the federal and provincial income tax authorities for income tax purposes. These non-consolidated financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.



**Bernie O'Neil**  
President and CEO



**Sharon Arnold, CA**  
Vice-President Finance

## Balance Sheet

December 31

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 34,155,226	\$ 23,956,166
Investments (Note 3)	313,951,404	280,063,503
Loans and mortgages (Note 4)	38,534,148	51,653,863
Accrued interest	2,415,384	2,302,960
Fixed assets (Note 5)	2,821,100	2,766,616
Future income tax asset (Note 15)	266,282	99,253
Other assets	3,059,496	2,633,054
	<u>\$ 395,203,040</u>	<u>\$ 363,475,415</u>
<b>Liabilities</b>		
Deposits (Note 7)	\$ 355,540,347	\$ 320,711,684
Accrued interest	896,058	918,033
Accounts payable and accrued	4,612,321	6,100,924
	<u>361,048,726</u>	<u>327,730,641</u>
<b>Members' equity</b>		
Capital stock (Note 8)	25,665,600	26,053,960
Retained earnings	6,733,085	6,695,739
Accumulated other comprehensive income	1,755,629	2,995,075
	<u>34,154,314</u>	<u>35,744,774</u>
	<u>\$ 395,203,040</u>	<u>\$ 363,475,415</u>
Commitments and contractual obligations (Note 10)		
Subsequent event (Note 16)		

Approved:

On Behalf of the Board:

Bernie O'Neil  
President and CEO

Dave MacLean  
Chair

Doug Dewling  
Director

See accompanying notes to the financial statements

## Statements of Income and Comprehensive Income (Loss)

Year Ended December 31

	2010	2009
<b>Financial income</b>		
Interest on investments	\$ 6,125,107	\$ 7,677,198
Interest on loans and mortgages	1,509,201	1,825,178
	<u>7,634,308</u>	<u>9,502,376</u>
<b>Financial expense</b>	<b>3,105,143</b>	5,595,029
Gross financial margin	4,529,165	3,907,347
Provision for (recovery) losses	(189,193)	(73,454)
Net financial income	<u>4,718,358</u>	<u>3,980,801</u>
Other income (Note 14)	8,716,236	10,038,251
	<u>13,434,594</u>	<u>14,019,052</u>
<b>Operating expenses</b>		
Salaries and staff related	5,500,772	5,573,591
Office expense	1,666,913	1,635,556
Marketing and business development	606,215	582,019
Democracy	693,790	832,161
Professional Fees	476,014	303,909
Other expenses	243,808	398,338
	<u>9,187,512</u>	<u>9,325,574</u>
Operating income	4,247,082	4,693,478
Distributions to Credit Unions	3,459,502	2,350,000
Income before taxes	787,580	2,343,478
Income taxes (Note 15)	179,015	520,459
<b>Net income</b>	<u>\$ 608,565</u>	<u>\$ 1,823,019</u>
Net income	\$ 608,565	\$ 1,823,019
Other comprehensive income (loss)		
Net change in unrealized (losses) gains on available for sale investments	(1,239,446)	798,973
<b>Comprehensive income (loss)</b>	<u>\$ (630,881)</u>	<u>\$ 2,621,992</u>

See accompanying notes to the financial statements

## Statements of Changes in Members' Equity

Year Ended December 31

	2010	2009	2010	2009
	<b>Number of Shares</b>			
<b>Common shares</b>				
Balance at beginning of year	2,200,013	2,144,058	\$ 22,000,130	\$ 21,440,580
Issued	800	55,978	8,000	559,780
Redeemed	(43,825)	(23)	(438,250)	(230)
Balance at end of year	2,156,988	2,200,013	\$ 21,569,880	\$ 22,000,130
<b>Class A shares</b>				
Balance at beginning of year	405,383	380,457	\$ 4,053,830	\$ 3,804,570
Issued	4,199	24,926	41,990	249,260
Redeemed	(10)	-	(100)	-
Balance at end of year	409,572	405,383	\$ 4,095,720	\$ 4,053,830
<b>Capital stock</b>			\$ 25,665,600	\$ 26,053,960
<b>Retained earnings</b>				
Balance at beginning of year			\$ 6,695,739	\$ 6,657,247
Net Income			608,565	1,823,019
Dividends (net of income tax recovery of \$211,273; 2009 - \$660,031)			(571,219)	(1,784,527)
Balance at end of year			\$ 6,733,085	\$ 6,695,739
<b>Accumulated other comprehensive income</b>				
Balance at beginning of year			\$ 2,995,075	\$ 2,196,102
Unrealized (losses) gains on AFS investments, net of tax			(1,239,446)	798,973
Balance at end of year			\$ 1,755,629	\$ 2,995,075
<b>Members' equity</b>			\$ 34,154,314	\$ 35,744,774

See accompanying notes to the financial statements

## Statement of Cash Flows

Year Ended December 31

	2010	2009
Increase (decrease) in cash and cash equivalents		
<b>Operating activities</b>		
Net income	\$ 608,565	\$ 1,823,019
Adjustments:		
Depreciation	500,807	507,591
Future income taxes	(167,029)	89,459
Decrease in interest payable	(21,975)	(925,762)
Decrease in income taxes payable	-	(291,347)
Other items, net	(3,266,915)	3,679,450
	<u>(2,346,547)</u>	<u>4,882,410</u>
<b>Financing activities</b>		
Net increase (decrease) in deposits	34,828,663	(59,189,589)
Net proceeds from (redemptions) issuance of capital	(388,360)	808,810
Dividends, net of income tax recovery	(571,219)	(1,784,527)
	<u>33,869,084</u>	<u>(60,165,306)</u>
<b>Investing activities</b>		
Net (decrease) increase in investments	(33,887,901)	61,500,116
Net increase (decrease) in loans and mortgages	13,119,715	(7,888,652)
Fixed assets, net	(555,291)	(489,786)
	<u>(21,323,477)</u>	<u>53,121,678</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,199,060</b>	<b>(2,161,218)</b>
<b>Cash and cash equivalents (net)</b>		
Beginning of year	23,956,166	26,117,384
End of year	<u>\$ 34,155,226</u>	<u>\$ 23,956,166</u>
<b>Supplemental disclosure of cash flow information</b>		
Amount of interest paid in year	\$ 3,127,118	\$ 6,520,791
Amount of income taxes paid in year	58,270	513,372

See accompanying notes to the financial statements

## Notes to Financial Statements – December 31, 2010

### 1. Summary of significant accounting policies

#### ***Non-consolidated financial statements***

These non-consolidated financial statements have been prepared in accordance with the significant accounting policies set out below.

These financial statements materially differ from Canadian generally accepted accounting principles because they are non-consolidated. The Company's investment in its wholly-owned subsidiary, League Savings and Mortgage Company, has been recorded at cost. Earnings from the investment are recognized only to the extent dividends are received or receivable. Consolidated financial statements have been prepared as at December 31, 2010 for distribution to the members.

#### ***Changes in accounting standards***

In June 2009, the AcSB issued amendments to Section 3862, Financial Instruments – Disclosures, to enhance disclosure requirements for the inputs used in fair value measurements, as well as liquidity risk. The amendments are effective for the Company's annual financial statements as at December 31, 2009. The amendments have no impact on how the Company determines the fair value of financial instruments; however, they require additional disclosures. Since the amendments pertain to disclosure requirements only, they had no significant impact on the Company's results or financial position.

#### ***Use of estimates***

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### ***Financial instruments***

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as held-for-trading (HFT), available for sale (AFS), held-to-maturity (HTM) or loans and receivables (L&R). Financial liabilities are required to be classified as held-for-trading or other financial liabilities (OFL). All financial instruments, including all derivatives, are measured at fair value on the balance sheet with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are reported in earnings, while the changes in value of available for sale financial assets are reported within Other Comprehensive Income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the balance sheet as a separate component of Members' Equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets.

The Company has classified its financial instruments as follows:

HFT	Cash
AFS	Investments
L&R	Loans and mortgages
OFL	Borrowings, deposits, accrued interest, payables

#### ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, and balances with financial institutions.

### ***Investments***

Investments have been designated as available for sale. Investments are initially recorded at cost with premiums and discounts amortized to maturity. Investments are reported at market value with any unrealized gains or losses reported in OCI.

Investment income is recognized on an accrual basis. Realized gains and losses on the disposal of securities are included in investment income. All securities are held for investment purposes.

### ***Loans and mortgages***

Loans and mortgages have been designated as loans and receivables. Loans and mortgages are net of allowances established to recognize anticipated losses. The amount provided for anticipated loan losses is determined by reference to specific loans or mortgages in arrears and by the judgement of management.

A general allowance has been established to provide for losses on loans and mortgages where past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be specifically identified on an account-by-account basis.

### ***Revenue recognition***

Interest accrued on loans and mortgages is recognized in earnings except where a loan or mortgage is classified as impaired. Loans and mortgages are classified as impaired at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectability of principal or interest, or when interest or principal is contractually past due 90 days, unless the loan or mortgage is both well secured and in the process of collection. Interest received on an impaired loan or mortgage is recognized in earnings only if there is no longer doubt as to the collectability of principal.

### ***Fixed assets***

Land is carried at cost. Buildings, equipment and improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets at the following rates:

Buildings and improvements	2-10%
Furniture and equipment	20-33%

### ***Income taxes***

Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

### ***International financial reporting standards (IFRS)***

In March 2009, the Canadian Accounting Standards Board (AcSB) reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a federally regulated financial institution the Company is specifically scoped into the definition of a publicly accountable enterprise. As such, the Company will be required to prepare its 2011 financial statements including comparative information for 2010 in compliance with IFRS.

The Company's IFRS implementation project plan includes three phases: (1) Scope, (2) Plan, Design and Build, and (3) Implement and Review. The first two phases have been completed and the third phase is well underway. The standards that are expected to have a significant impact on the Company's recognition, measurement, presentation and disclosure of its financial statements have been identified.

Management has conducted an assessment of the differences between the Company's current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. The assessment included a consideration of:

- Financial statement impact
- Complexity to quantify / amend
- Additional disclosures required
- Impact on capital
- Tax impact
- Impact on systems, processes and controls

In the second phase of the project the Company prepared position papers on the key areas identified as having a potentially significant impact:

- Loan loss provisioning
- Financial instruments
- Employee benefits
- Property plant & equipment
- Securitizations
- Business combinations

These position papers were reviewed and approved by the Audit Committee of the Board in 2010. The third phase of the project, which will continue through 2011, includes the final determination of restated balances as at January 1st, 2010 for comparative statements, and the development of new note disclosures for 2011.

Management has determined that the changes are not expected to have a significant impact on reported balances. The greatest impact is expected to be in the nature of additional disclosures.

Managements' analysis of changes and policy decisions reflect accounting standards in effect at the time of the Company's transition. Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board (IASB) in the future. As a result, there is some uncertainty regarding the expected accounting standards that will ultimately be in place as at December 31, 2011, and therefore applicable to the Company's first IFRS financial statements, including comparatives and opening IFRS balance sheet. The Company's IFRS project plan includes activities to ensure management monitors these changes.

### ***Comparative figures***

Certain comparative figures have been reclassified to conform with the presentation adopted for 2010.

## **2. Risk management**

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. Authority for all risk-taking activities rests with the Board of Directors (Board), which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The various processes within the Company's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed and controlled. Internal Audit reports independently to the Audit, Risk & Conduct Review Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

The Management Finance Committee (MFC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit risk
- Liquidity
- Interest rate risk
- Foreign exchange
- Investment portfolio

- Derivatives
- Large exposures
- Capital

The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of the Company's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short and long term goals set by the Board.

### ***Credit Risk***

Credit risk is the potential for loss due to the failure of a borrower, endorser or guarantor to fulfill its payment obligation to the Company.

The Company has established policies and procedures for credit risk management. Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals, and a realistic loan allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval, and periodically thereafter. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of management.

The Company maintains both specific and general allowances for credit losses. Specific allowances are established based on management's knowledge of the property and prevailing conditions. General allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The general allowance is determined based on the Company's risk weighted portfolio and other factors including an assessment of market risk.

Management regularly monitors the Company's credit risk and reports to the Board on a quarterly basis.

### ***Liquidity Risk***

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Company has established policies to ensure the Company is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

The Company's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Scenario testing and contingency planning

Management monitors the Company's liquidity position daily and reports to the Board on a quarterly basis.

### Market Risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually.

The Company uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The Company has developed standards regarding the use of derivative products.

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. The Company's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. The Company manages and controls interest rate risk primarily by managing asset/ liability maturities; however, off-balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

The Company measures interest rate risk through gap analysis on a quarterly basis. Gap analysis measures the difference between the amount of assets and liabilities repricing in specific time periods. Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at Risk over the next 12 months as at December 31:

(Dollars)	<u>2010</u>	<u>2009</u>
100 basis point increase	49,000	(142,000)
100 basis point decrease	(33,000)	(290,000)

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on the Company's maximum exposure to interest rate risk, and the Company's earnings at risk were within this limit.

### 3. Investments

	<u>2010</u>	<u>2010</u>	2009	2009
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Bank paper	\$ 107,106,238	\$ 107,719,334	\$ 93,805,885	\$ 95,088,314
Federal and federally guaranteed bonds	-	-	-	-
Provincial and provincially guaranteed bonds	14,741,892	14,914,328	17,799,994	19,150,497
Corporate bonds	39,813,008	39,960,119	35,388,314	35,637,046
Co-operative deposits	142,000,000	142,275,787	121,000,000	121,284,164
Co-operative equities	4,161,842	4,161,842	4,103,624	4,156,728
Investment in subsidiary	3,734,944	3,734,944	3,734,944	3,734,944
Corporate shares	62,961	1,185,050	62,961	1,011,810
	<u>\$ 311,620,885</u>	<u>\$ 313,951,404</u>	<u>\$ 275,895,722</u>	<u>\$ 280,063,503</u>

#### 4. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance	Net Loans
<b>2010</b>					
				(included in total allowance)	
Residential insured	\$ 14,749,746	\$ -	\$ 9,820	\$ -	\$ 14,739,926
Residential uninsured	1,082,521	-	1,277	-	1,081,244
Non-residential	6,619,956	-	87,504	-	6,532,452
Lines of credit	16,180,526	-	-	-	16,180,526
	<b>\$ 38,632,749</b>	<b>\$ -</b>	<b>\$ 98,601</b>	<b>\$ -</b>	<b>\$ 38,534,148</b>
<b>2009</b>					
Residential insured	\$ 22,639,266	\$ -	\$ -	\$ -	\$ 22,639,266
Residential uninsured	1,311,172	-	4,609	-	1,306,563
Non-residential	6,868,455	-	283,185	-	6,585,270
Lines of credit	21,122,764	-	-	-	21,122,764
	<b>\$ 51,941,657</b>	<b>\$ -</b>	<b>\$ 287,794</b>	<b>\$ -</b>	<b>\$ 51,653,863</b>

#### Continuity of allowance for loan losses

	2010	2009
Allowance, beginning of year	\$ 287,794	\$ 361,248
Loan loss provisions (recoveries)	(189,193)	(73,454)
Allowance, end of year	<b>\$ 98,601</b>	<b>\$ 287,794</b>

#### 5. Fixed assets

	Cost	Accumulated Depreciation	2010 Net Book Value	2009 Net Book Value
Land	\$ 351,522	\$ -	\$ 351,522	\$ 351,522
Buildings and improvements	4,118,929	2,207,025	1,911,904	1,830,383
Furniture and equipment	5,555,024	4,997,350	557,674	584,711
	<b>\$ 10,025,475</b>	<b>\$ 7,204,375</b>	<b>\$ 2,821,100</b>	<b>\$ 2,766,616</b>

## 6. Credit facilities

The Company has established an operating line of credit of \$4,000,000 with the Bank of Nova Scotia, an operating line of credit of \$25,000,000 with Central1 and a \$10,000,000 operating line of credit with a total exposure limit of \$132,690,000 with Credit Union Central of Canada. Each line of credit bears interest at the institutions prime lending rate. As security the Company has provided an assignment of marketable securities having a carrying value of \$29,000,000 and an assignment of its share capital held in Credit Union Central of Canada. At December 31, 2010 the amount outstanding on these facilities was nil (2009 - nil).

## 7. Deposits

	<b>2010</b>		<b>2009</b>
Credit union demand deposits	\$ 39,703,336	\$	35,421,002
Credit union liquidity deposits	219,152,984		204,343,487
Total demand	<b>258,856,320</b>		239,764,489
Term deposits	96,684,027		80,947,195
	<b>\$ 355,540,347</b>	\$	<b>320,711,684</b>

## 8. Capital stock

Authorized capital stock is as follows:

### Authorized:

Common shares	Unlimited common shares with no par value
Class A shares	10,000,000 Class A non-voting shares with no par value

The consideration for any shares issued or redeemed is cash.

## 9. Related party transactions

a) The Company has a contract with its subsidiary, League Savings and Mortgage Company (League Savings), for the provision of administrative, management and other services. The companies also transact other business in the ordinary course of operations. The following transactions and balances are measured at the exchange amount:

	<u>2010</u>	<u>2009</u>
Income and fees related to the management contract	\$ 1,992,000	\$ 1,896,000
Interest expense	141,324	269,415
Interest income	315,392	424,546
Rental and other income	357,865	252,913
Dividend income	15,000	15,000
Deposits (overdrafts) held by Central	(3,052,248)	(3,044,729)
Deposits held by League Savings	20,000,000	20,000,000
Accounts receivable from League Savings	474,855	250,058

Balances relating to mortgages purchased:

	<u>2010</u>	<u>2009</u>
Interest income	922,471	1,370,734
Amortization of purchase price differential	8,964	8,964
Mortgages	14,060,798	20,953,794
Unamortized purchase price differential	747	9,711
Monthly remittances receivable	605,494	616,584

b) The Company has a contract with League Data Limited, a related company by virtue of common ownership, for the provision of administrative, management and other services. The Companies also transact other business in the ordinary course of operations. The following transactions and balances are measured at the exchange amount:

	<u>2010</u>	<u>2009</u>
Income and fees related to the management contract	\$ 60,000	\$ 60,000
Rental and other income	99,904	100,704
Services and equipment purchases from League Data Limited	50,682	49,462
Deposits held by the Company	6,587,312	6,248,472
Net amount receivable from (payable to) League Data Limited	(26,800)	10,427

c) Payments to Directors

	<u>2010</u>	<u>2009</u>
Remuneration	\$ 57,500	\$ 57,500
Payments for reimbursement of expenses	58,192	51,283
Loans to Directors	-	-

## 10. Commitments and contractual obligations

### a) Interest rate swap agreements

The Company, as intermediary for certain credit unions, has entered into various interest rate swap agreements in order that the credit unions may manage their exposure to interest rate fluctuations. The terms of the agreements provide that the Company pay a fixed interest rate on notional principal amounts due to mature in the future in exchange for variable or short term interest rate returns on these same amounts. In turn, reciprocal interest rate swap agreements have been entered into with the respective credit unions.

There were no interest rate swap agreements outstanding at December 31, 2010.

### b) Foreign exchange forward agreements

The Company, as intermediary for certain credit unions, has entered into various forward agreements in order that the credit unions may manage their exposure to foreign currency fluctuations. The terms of the agreements provide that the Company buy or sell a fixed amount of foreign currency, at a fixed exchange rate, on a specified future date. In turn, a reciprocal agreement is entered into with the credit unions, to sell or buy the same amount of foreign currency on the same dates.

There were no forward rate agreements outstanding at December 31, 2010.

### c) Clearing and settlement agreement

The Company has entered into a contract for clearing and settlement arrangements. The contract expires in July 2013. Pricing is subject to annual adjustment each July 1st based on the average change in Consumer Price Index in the preceding 12 month period.

## 11. Capital requirements

The Company manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions (OSFI). OSFI prescribes a liabilities to capital borrowing multiple not to exceed 20 times capital.

The Company has established internal limits to ensure that it meets its regulatory requirements. The borrowing multiple is monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually. At December 31, our borrowing multiple was as follows:

	<b>2010</b>	2009
Maximum borrowing multiple	<b>20</b>	20
Actual borrowing multiple	<b>12.6</b>	11.1

The Company's borrowing multiple has been in compliance with the regulatory requirements throughout the year.

## 12. Assets under administration

The Company provides a loan syndication program for Credit Unions. These loans, which are under the Company's administration, are not the property of the Company and are not reflected on the balance sheet. Although most of the loan syndications are purchased by credit unions, the Company can be a participant if a loan is not fully subscribed to by credit unions.

When the Company participates in the loan syndication, the amount is included in loans and mortgages on the balance sheet as "Non-residential". Where a fully subscribed loan syndication has not been distributed to credit unions, the undistributed amount is also included in loans and mortgages as "Non-residential". The amount outstanding at December 31 was:

	<u>2010</u>	<u>2009</u>
Assets under administration	\$ 29,918,434	\$ 19,404,840
Included in Non-residential	579,644	766,002

## 13. Financial instruments

### a) Interest rate risk

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of balance sheet by the earlier of the contractual repricing or maturity dates.

An estimate of prepayments has been determined by management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

(Reported in \$000's)

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-interest Sensitive	Total	Average Rate
<b>2010</b>							%
<b>Assets</b>							
Cash and investments	\$ 162,261	\$ 103,820	\$ 73,512	\$ 1,261	\$ 7,253	\$ 348,107	1.77
Loans and mortgages	18,568	10,129	9,763	-	74	38,534	3.96
Other assets	-	-	-	-	8,562	8,562	
	<b>\$ 180,829</b>	<b>\$ 113,949</b>	<b>\$ 83,275</b>	<b>\$ 1,261</b>	<b>\$ 15,889</b>	<b>\$ 395,203</b>	
<b>Liabilities and equity</b>							
Deposits	\$ 142,844	\$ 144,584	\$ 28,409	\$ -	\$ 39,703	\$ 355,540	1.04
Other liabilities	-	-	-	-	5,509	5,509	
Equity	-	-	-	-	34,154	34,154	
	<b>\$ 142,844</b>	<b>\$ 144,584</b>	<b>\$ 28,409</b>	<b>\$ -</b>	<b>\$ 79,366</b>	<b>\$ 395,203</b>	
Subtotal	\$ 37,985	\$ (30,635)	\$ 54,866	\$ 1,261	\$ (63,477)	\$ -	
Prepayment estimate	366	1,098	(1,464)	-	-	-	
Excess (deficiency)	<b>\$ 38,351</b>	<b>\$ (29,537)</b>	<b>\$ 53,402</b>	<b>\$ 1,261</b>	<b>\$ (63,477)</b>	<b>\$ -</b>	

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-interest Sensitive	Total	Average Rate
<b>2009</b>							%
<b>Assets</b>							
Cash and investments	\$ 115,666	\$ 104,574	\$ 72,998	\$ 1,261	\$ 9,519	\$ 304,018	2.07
Loans and mortgages	22,568	8,411	20,575	-	100	51,654	3.82
Other assets	-	-	-	-	7,803	7,803	
	<b>\$ 138,234</b>	<b>\$ 112,985</b>	<b>\$ 93,573</b>	<b>\$ 1,261</b>	<b>\$ 17,422</b>	<b>\$ 363,475</b>	
<b>Liabilities and equity</b>							
Deposits	\$ 117,295	\$ 147,132	\$ 20,864	\$ -	\$ 35,421	\$ 320,712	0.76
Other liabilities	-	-	-	-	7,018	7,018	
Equity	-	-	-	-	35,745	35,745	
	<b>\$ 117,295</b>	<b>\$ 147,132</b>	<b>\$ 20,864</b>	<b>\$ -</b>	<b>\$ 78,184</b>	<b>\$ 363,475</b>	
Subtotal	\$ 20,939	\$ (34,147)	\$ 72,709	\$ 1,261	\$ (60,762)	\$ -	
Prepayment estimate	772	2,314	(3,086)	-	-	-	
Excess (deficiency)	<b>\$ 21,711</b>	<b>\$ (31,833)</b>	<b>\$ 69,623</b>	<b>\$ 1,261</b>	<b>\$ (60,762)</b>	<b>\$ -</b>	

## **b) Interest rate swap agreements**

The Company may enter into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. There were no interest rate contracts outstanding at December 31.

## **c) Fair value**

The following table presents the fair value of on and off balance sheet financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment. In addition, items such as the value of intangible assets such as customer relationships which, in management's opinion add significant value to the Company are not included in the disclosures below.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Company's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. For investments, corporate shares are valued using quoted market prices (Level 1); bank paper, bonds and co-operative deposits are valued using market prices provided by 3rd party brokers (Level 2); and co-operative securities are carried at cost.

There have been no transfers between Level 1 and 2 during the year.

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, and deposits, the fair value is calculated using a discounted cash flow model, based on weighted average interest rates and the term to maturity of the instrument. The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2010		2009	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 34,155,226	\$ 34,155,226	\$ 23,956,166	\$ 23,956,166
Investments	311,620,885	313,951,404	275,895,722	280,063,503
Loans and mortgages	38,534,148	38,816,332	51,653,863	51,948,128
Accrued interest	2,415,384	2,415,384	2,302,960	2,302,960
<b>Liabilities</b>				
Deposits	\$ 355,540,347	\$ 355,632,024	\$ 320,711,684	\$ 321,002,849
Accrued interest	896,058	896,058	918,033	918,033

#### 14. Other income

Other income includes the following:

	2010	2009
Banking services	\$ 1,953,145	\$ 1,776,948
Lending services	279,910	181,833
Member assessments	2,593,953	2,891,392
Management fees	2,052,000	1,956,000
Fee for service	997,750	909,509
Printing sales	329,946	308,368
Rentals	246,084	244,334
Other	263,448	1,769,867
	<u>\$ 8,716,236</u>	<u>\$ 10,038,251</u>

## 15. Income taxes

The components of income tax expense (recoveries) are as follows:

	2010		2009
Current income taxes	\$ 346,044	\$	431,000
Future income taxes (recovery)	(167,029)		89,459
Income taxes	<u>\$ 179,015</u>	<u>\$</u>	<u>520,459</u>

The components of the future income tax asset are as follows:

	2010		2009
Future income tax assets			
Property and equipment	\$ -	\$	(6,851)
Allowance for impaired loans	26,622		77,704
Losses carried forward	150,318		-
Other	124,991		54,002
Total future income tax assets	<u>\$ 301,931</u>	<u>\$</u>	<u>124,855</u>
Future income tax liabilities			
Property and equipment	26,433		-
Unrealized gains on investments	\$ 9,216	\$	25,602
	<u>\$ 35,649</u>	<u>\$</u>	<u>25,602</u>
Net future income tax asset	<u>\$ 266,282</u>	<u>\$</u>	<u>99,253</u>

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2010		2009
Income before income taxes	\$ 787,580	\$	2,343,478
Statutory income tax rate	44.00%		44.00%
Expected income tax	<u>346,536</u>		<u>1,031,131</u>
Effect on income tax of:			
Credit Union tax credit	(117,232)		(327,698)
Non-taxable dividends and non-capital losses	(58,094)		(199,161)
Permanent tax differences	14,943		16,192
Other	(7,138)		(3)
Total income tax expense	<u>\$ 179,015</u>	<u>\$</u>	<u>520,461</u>

## 16. Subsequent Event

Pursuant to a Definitive Combination Agreement dated June 30, 2010, on January 1, 2011 the Company purchased the assets and assumed the liabilities of Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island. With the proclamation of amended Credit Union legislation in each of Nova Scotia, New Brunswick and Prince Edward Island, the three Centrals have completed a business combination to form "Atlantic Central". Atlantic Central is the continuance of Credit Union Central of Nova Scotia and will be owned by credit unions in the Atlantic Provinces.

The transaction will be completed in four steps:

### 1. Pre-closing

- New classes of shares created, including provincial class shares and Class B shares.
- Class NS and Class NL shares distributed to the shareholders of record as at December 31, 2010, by way of a stock dividend.
- Class A shares exchanged for common shares.
- Class A shares cancelled.

### 2. Closing

- Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island transfer assets and liabilities at fair value to the Atlantic Central, in exchange for Common, Class NB and Class PEI shares

### 3. Post-closing

- NB and PEI Centrals distribute the common, Class NB and Class PEI shares to their members in exchange for shares in Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island.
- The NB and PEI Centrals continue to exist until the companies are wound up in 2011.

### 4. Rebalancing

- Atlantic Central maintains a specific level of equity and capital – a total of 8% of assets - made up of 1.7% equity (excluding AOCI) and 6.3% share capital.
- To achieve this level of equity and capital, and to achieve each member credit union's proportionate share of ownership, each credit union's holdings in the various classes of shares will be increased or reduced by way of share subscriptions or redemptions.

The valuations of the assets and liabilities acquired by the Company and the rebalancing of shareholdings are not known at this time and will be completed early in 2011.



**CREDIT  
UNIONS**

*Office of the Ombudsperson for  
Nova Scotia Credit Unions*

## 2010 Annual Report

As per the requirements under the Ombudservice Operating Procedures, I am required as Ombudsperson to prepare and provide an Annual Report to the delegates of Credit Union Central of Nova Scotia at each Annual General Meeting. The following is a summary of the activities which comprises my report for 2010:

### Summary of Activities and Complaint Processes

Complaint Number	Agreement Reached	Partial Resolution	Agreement Not Reached	In Progress	Time to Resolve	Recommended in Favour of Credit Union	Recommended in Favour Complainant	Number of Recommendations made	Recommendations accepted by the Credit Union	Recommendations accepted by the Complainant
1		yes			93 days	no	yes	1	yes	yes

Clarence P. Landry, Ombudsperson  
Office of the Ombudsperson

01 / 21 / 2011

Date

#### *Notes in reference to complaints received:*

- #1 A borrower satisfied a debt with a credit union and had their judgement released. However the co-borrower's judgement remained active, which should have been released at the same time.



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