

Concentra[®]
FINANCIAL

*em***POWERING**
Canada's Credit Unions[®]



POWERED

for Renewal

2010 Annual Report



Financial Highlights

(Millions of Dollars)

For the Year	2010	2009	2008	2007	2006
Continuing Operations					
Gross revenue	169.59	198.25	194.08	177.60	160.38
Net interest income	60.50	55.00	46.35	34.62	37.02
Provision for credit losses	3.07	0.60	4.97	0.18	0.02
Non-interest expenses	55.75	48.81	44.83	44.04	42.63
Net income from continuing operations	22.49	28.99	4.87	1.88	11.10
Net income from discontinued operations ¹	1.67	1.71	2.87	20.86	2.57
Net income	24.16	30.70	7.74	22.74	13.67
At Year End					
Assets from continuing operations	3,569.05	3,686.36	3,834.62	3,555.89	3,003.27
Assets from discontinued operations	3.99	8.88	9.10	62.46	300.92
Total assets	3,573.04	3,695.24	3,843.72	3,618.35	3,304.19
Retained earnings	82.62	69.14	38.70	42.07	40.02
Assets under administration	23,400	23,600	21,000	20,000	19,200
Consolidated Return on Equity	11.8%	17.7%	4.1%	12.5%	7.6%
Assets to Capital Multiple ²	13.0	14.2	18.4	16.7	16.8
Total Regulatory Capital to Risk-Weighted Assets ²	17.8%	16.6%	12.4%	12.2%	12.5%

⁽¹⁾2007 includes gain on sale of retail credit card business of \$17.46 (net of tax).

⁽²⁾The 2010, 2009 and 2008 ratios are calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) under the new Basel II framework. Comparative ratios are calculated using guidelines issued by OSFI under the Basel I framework. Basel I and Basel II are not directly comparable.

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2010 Board of Directors

Don Blocka

Representing: Saskatchewan Region
Member, Executive Committee

Gilles Colbert

Representing: Saskatchewan Region
Member, Audit and Risk Committee

Terry Cooper

Representing: Alberta Region
Member, Audit and Risk Committee

Loretta Elford

Representing: Saskatchewan Region
Member, Audit and Risk Committee

Bob Hague

Representing: National Services Members
Member, Conduct Review Committee
Member, Governance Committee

Scott Kennedy

Representing: Ontario/British Columbia Region
Member, Executive Committee

George Keter

Representing: Saskatchewan Region
Member, Conduct Review Committee
Member, Governance Committee

Gordon Lightfoot

Representing: Saskatchewan Region
Member, Audit and Risk Committee

Kevin Lukey

Representing: Saskatchewan Region
Member, Executive Committee

Wayne McLeod

Representing: National Services Members
Chair, Board of Directors
Chair, Executive Committee

Robert McVeigh

Representing: Minority Shareholders
Member, Audit and Risk Committee

Allan Morin

Representing: Manitoba Region
Chair, Audit and Risk Committee
Member, Executive Committee

David Phillips

Representing: Class B Shareholders
Member, Conduct Review Committee
Member, Governance Committee

Malcolm Stoffman

Representing: Ontario/British Columbia Region
Chair, Conduct Review Committee
Member, Governance Committee

Dean Walde

Representing: Saskatchewan Region
Member, Conduct Review Committee
Chair, Governance Committee

Message from the Board Chair and President/Chief Executive Officer

Throughout 2010 Concentra Financial continued to execute our multi-year strategy to effectively position us for the new normal emerging from the global economic crisis. Simultaneously we looked far beyond present day to lay out a framework for a sustainable, and mutually beneficial, future with credit unions.

Concentra Financial followed record 2009 financial results with continued strong performance in 2010. Illustrating fulfillment of our Strategic Plan objectives, we achieved consolidated net income of \$24.2 million (net income of \$22.5 million from continuing operations), corporate assets of \$3.6 billion and assets under administration of \$23.4 billion. Overall, consolidated return on equity was 11.8% compared to 17.7% in 2009.

Leadership strength, employee commitment and effective business practices were recognized again in Canada's 50 Best Managed program. For the second consecutive year, Concentra Financial was invited to be a member of the distinguished Platinum Club.

Early in 2010, Concentra Financial set the direction for renewal by thoroughly refreshing our Strategic Plan.

We recognized that structural business model changes would be necessary to sustain profitability, and that our role is to deliver value to those Concentra Financial was created to serve – Canada's credit unions. Acknowledging that credit unions are moving ahead rapidly, we began to define changes needed to refocus and align our business to meet the emerging and future needs of Canada's credit unions. Concentra Financial is transforming because credit unions are transforming.

To deliver greater value to credit unions and shareholders, the new Strategic Plan framework clearly defines corporate measures of success, client and solutions focus, and the unique market position Concentra Financial possesses.

We continue to provide integrated financial and trust solutions, along with competitive investment opportunities, to Canada's credit unions. These programs are here for the long term, and will grow stronger with time. What we have begun to reshape is how we do business. We are committed to a fully credit union-centric business model, and to doing all that we can to help credit unions achieve success.

Understanding and delivering on credit union needs is the primary focus for Concentra Financial. By increasing personal contact and consultation we better understand the unique business challenges of each of our credit union partners. Through the power of listening, proactive consultations are bringing new energy to our relationships with credit unions.

With our thoughtfully calibrated action plan already demonstrating results, we are committed to maximizing opportunities to create new business and build momentum with credit unions.

Concentra Financial has entered 2011 fully powered for renewal.

Wayne McLeod, Board Chair

Ken Kosolofski, President and Chief Executive Officer

Management Discussion and Analysis

The following discussion and analysis on the operations and financial position of Concentra Financial Services Association (Concentra Financial) at December 31, 2010, should be read in conjunction with the Consolidated Financial Statements and the accompanying notes.

Financial Performance

Concentra Financial provides value to Canada's credit unions and endeavours to maximize shareholder value. The company is dedicated to continuously refining business practices to meet the demands of a dynamic financial services industry and expanding the boundaries of our financial targets.

Concentra Financial establishes long-term financial performance objectives that are reviewed and approved annually by the Board of Directors as an essential component of the strategic planning process. The measurement of these key financial performance indicators is based on consolidated operations.

Concentra Financial continued to perform strongly in 2010. After interest rates reached a record low in 2009, market conditions began to recover and interest rates started to rise in 2010. The 2010 financial performance was impacted positively by higher net interest income, gain on securities and realized and unrealized gains (losses) on derivatives. However, the results were affected by higher provision for credit losses, lower income from securitized assets and increased general business expense.

The following is a summary of the company's key financial performance indicators.

Asset Growth

- The company has established long-term growth targets of 3% to 6% annually, expecting to fully leverage the increase in net assets.
- Capital plans have been developed to ensure Concentra Financial meets the necessary external requirements while achieving growth targets.
- During 2010, the company managed the size of the consolidated on-balance sheet assets downward by 3.3% to ensure strong capital adequacy and liquidity levels were maintained (2009 – downward by 3.9%).
- Overall growth of assets comprising on-balance sheet assets from continuing operations as well as off-balance sheet loan program assets was 1.0% (2009 – 3.4%).
- The assets under administration on a consolidated basis decreased by 0.7% (2009 – increased 12.1%). The decrease was mainly seen in assets administered or managed by the company on behalf of corporate estates, trusts and agencies.
- Additional information in relation to asset growth is included in the business lines section later in this report.

Productivity

- An annual productivity target is set to support control over operating costs in relation to revenue levels. Productivity measures the ratio between non-interest expenses to net interest income and non-interest income. In this ratio, the company endeavours to achieve a downward trend, indicating that productivity is improving.

- Over the long term, the company will work toward achieving a productivity ratio of 50% - 60% annually. Factors that contribute to a healthy productivity ratio are maintaining a specified margin to average assets ratio, non-interest revenue growth measured as year-over-year percentage increase and non-interest revenue growth relative to total gross revenue while maintaining non-interest expenses at reasonable levels.
- The productivity ratio increased in 2010 to 65.0% (2009 - 56.2%). Non-interest income decreased mainly due to reduced income from securitized assets partially offset by positive impacts from gain on securities and realized and unrealized gains (losses) on derivatives. Gain on securities resulted in net gains in the current year from repositioning of the securities portfolio as well as overall positive movements in the asset-backed securities. The reduced net realized and unrealized derivative losses resulted from the net unrealized gains partially offsetting the net realized losses in the current year whereas the prior year had both higher net realized losses and net unrealized gains. The derivative portfolio is subject to significant volatility due to market conditions and can result in either significant positive or negative movements. Non-interest expense increased mainly due to increased general business expense for the settlement of two legal actions in the Province of Quebec in relation to Concentra Trust.

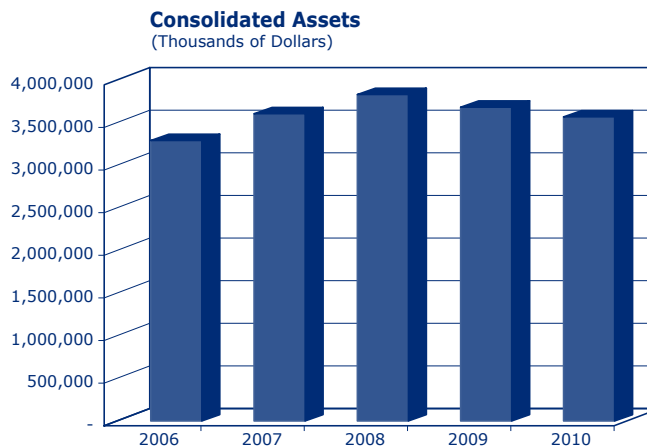
Return on Equity

- The company's overall financial return to shareholders is determined annually based on current conditions, with the long-term target of maintaining a 10% - 14% return on equity (ROE).
- For the year ending December 31, 2010, the consolidated ROE was 11.8% (2009 - 17.7%). The ROE remained strong in 2010 even though net income decreased compared to prior year.

Financial Statement Analysis

Consolidated assets decreased by \$0.1 billion to \$3.6 billion in 2010 due to a decrease in the securities and loans portfolios. The company's decrease in total assets was supported by the reduction in loans and notes payable which were partially offset by an increase in deposit liabilities. The ongoing size of the balance sheet continues to be actively managed in relation to the capital levels as well as liquidity levels.

In addition to the company's on-balance sheet assets, assets under administration include assets administered by the company and assets where the company acts as a trustee on behalf of clients. Consolidated assets under administration at December 31, 2010, were \$23.4 billion, a decrease when compared to \$23.6 billion in 2009. The level of assets administered contributes to non-interest revenue.



Consolidated net income from continuing operations decreased from \$29.0 million in 2009 to \$22.5 million in 2010. Income from discontinued operations remained at \$1.7 million when compared to prior year. This resulted in total consolidated net income of \$24.2 million (2009 - \$30.7 million).

Net interest margin after provision for credit losses increased in 2010 by \$3.0 million to \$57.4 million due to the repositioning of assets as market conditions recovered and interest rates began to rise. Non-interest income remained strong at \$23.3 million in 2010 compared to \$29.9 million in 2009.

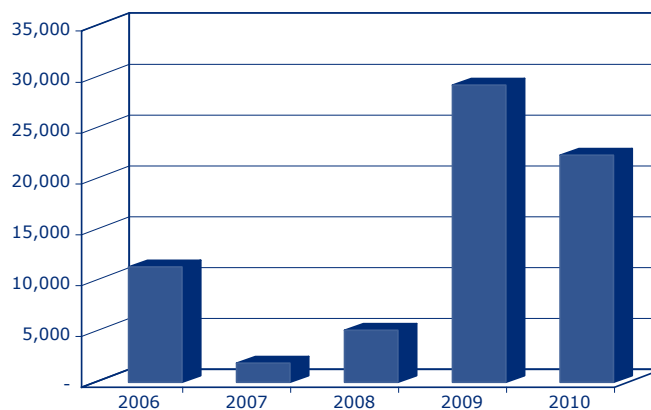
Within non-interest income, gain on securities increased \$2.1 million due to repositioning of the securities portfolio as well as positive movements on the asset-backed securities. The realized and unrealized gains (losses) from derivatives had a positive movement of \$2.3 million mostly as a result of lower net realized losses on the derivative portfolio. Offsetting these were decreased income from securitized assets of \$11.1 million resulting from reduced mortgage activity and lower interest rate spreads. While non-interest expense increased by \$6.9 million in 2010, these continue to be closely managed as shown by a \$0.5 million decrease in salaries and benefits and a \$1.0 million decrease in professional and advisory services. However, these were offset by an increase of \$8.4 million in general business expense, a significant portion of which was due to a charge for the settlement of two legal actions in the Province of Quebec.

Class A shareholders were paid dividends of \$6.7 million in 2010 based on the exceptional performance of continuing operations in 2009 (2009 - \$Nil). Class C shareholders were paid dividends of \$5.7 million in 2010 (2009 - \$Nil). Distributions of the earnings of the Card Operations are paid to the Class C shareholders in accordance with the related Class C share agreements.

Net impaired loans and property held for resale as a ratio of gross loans remained at 1.3% at year end when compared to prior year. Concentra Financial maintains both specific and general allowances for credit losses. Specific allowances are reviewed for adequacy on a regular basis by examining individual assets where there is reasonable doubt that the carrying value will be realized. General allowances are determined based on management's judgment considering economic conditions and historical credit performance.

Net Income from Continuing Operations

(Thousands of Dollars)



Business Lines

The multi-year strategy of undertaking business model changes to align with the emerging and ongoing needs of credit unions initiated development of enhanced business strategies. This refocusing resulted in improved profitability in 2009, which continued into 2010. The business lines directed their attention to delivering products that help credit unions achieve success while providing a return to Concentra Financial.

In moving forward Concentra Financial will continue to seek business opportunities that create and grow business with and for credit unions. Concentra Financial is committed to understanding the unique circumstances that face each credit union and maximizing opportunities that will support credit unions in this low interest rate environment and competitive market.

Financial Intermediation Commercial and Corporate Solutions

Commercial and Corporate Solutions delivers commercial lending, leasing, cash management and foreign exchange solutions in partnership with credit unions across Canada. These solutions support credit unions in serving their members and in managing their balance sheets, while supplementing credit union revenues from interest and fees.

2010 was the first full year of operation for the newly combined commercial and corporate solutions area, and despite challenging market conditions, results were good. Concentra Financial approved over \$246 million in new commercial loans during the year, supporting a further \$212 million in loans approved by partner credit unions. Outstanding commercial loans increased by 14.0% over 2009.

Lease originations were a challenge for all lessors. This was primarily due to the impact of the recession in Ontario, British Columbia and Alberta. While originations were a challenge, pricing discipline and portfolio quality allowed for continued positive contribution to financial results. Delinquency was well controlled at 1.8% for leases over 30 days in arrears and provisioning remained well under budget. Credit union involvement continued to be very strong. Over 40% of all the lease transactions were originated by our affiliated credit unions, with support from coast to coast.

2010 was a successful year for International Services. Revenue from foreign exchange grew by more than 15% to exceed \$550,000 for the first time. International Services worked with commercial members of credit unions in six different provinces, executing a record 1,200 transactions for a total volume of USD \$250 million.

Corporate Finance

Corporate Finance is responsible for management of the Concentra Financial balance sheet and corporate finance offerings for credit unions across Canada. Corporate Finance provides capital market products, securitization and loan syndications that provide balance sheet management options for credit unions.

Concentra Financial saw a slight decrease in its balance sheet that was mainly attributed to a reduction in certain deposits and loans. The securities portfolio continues to be the primary source of liquidity and the main investment focus was increasing the liquidity characteristics of the portfolio. The concentration of the portfolio continues to be in government securities and other highly rated instruments.

Concentra Financial has two main sources of funding: wholesale and retail deposits which are supplemented by a variety of credit facilities from other sources. There was a slight decrease in retail deposits as personal wealth moves from traditional deposits into the equity markets. As consumers

continue to gain confidence in the equity markets the credit union system is expected to experience deposit outflows which will impact credit union liquidity. Additional efforts will be placed on strengthening the liquidity position of Concentra Financial by growing market share from credit unions outside the Saskatchewan system.

Concentra Financial provides credit unions with innovative deposit, investment and loan solutions to support their daily financial operations and in managing liquidity and risk. These wholesale products are focused on enhancing credit union success as they manage their operations. In 2010, credit unions continued to face challenges with a low interest rate environment that led to reduced margins. Credit unions are expected to experience the same challenges in 2011 as interest rates remain low and the financial services industry remains very competitive.

To support credit unions' excess liquidity needs Concentra Financial periodically offers investment products that are structured to provide competitive market rates and features. In turn, with the added liquidity support from the system Concentra Financial is able to provide liquidity solutions to credit unions that are experiencing liquidity shortages. The demand for liquidity solutions from credit unions continued in 2010.

Concentra Financial participated in the NHA Mortgage-Backed Securities and Canada Mortgage Bond (CMB) programs as a means to generate liquidity, ease competitive pressures and enhance profitability in 2010. In addition, credit unions continued their participation in the programs through Concentra Financial sponsorship. These programs provide excellent value-added services to credit unions looking to manage risk exposures and liquidity constraints in an increasingly competitive residential mortgage market.

Concentra Financial offers liquidity management to credit unions through direct borrowing facilities, as well as loan asset purchases and sales. Excess liquidity in the credit union system led to increased demand for loan assets from Concentra Financial. To meet this demand Concentra Financial has continued to source loan product from credit unions and other third parties to be sold back into the credit union system as an investment opportunity. The credit union direct lending product line is currently being expanded to offer credit unions alternative liquidity solutions, which is expected to lead to increased growth in this area.

Mortgage and Deposit Services

Concentra Financial provides residential mortgage and retail deposit products to support credit union programs delivered nation-wide.

The residential mortgage sector continued to undergo significant change in 2010. In February the Federal Government announced three changes to the mortgages rules connected to insured mortgages intended to prevent a housing bubble. Despite these changes and warnings that Canadians had taken on too much debt, interest rates declined and the housing market saw increased sales. Concentra Financial managed the originated mortgage volumes sufficient to meet its balance sheet as well as exceed budget for sales to the Canada Mortgage Bond (CMB) program.

Strategic Financial Management

Concentra Financial provides strategic financial management solutions to enhance a credit union's overall financial performance. Strategic Financial Management (SFM) consults with credit unions to build sound financial management strategies which reflect their unique investment objectives and risk parameters. Subject matter expertise and market intelligence are combined, working collaboratively to enhance the credit union's ability to meet current and emerging challenges in the marketplace. Since inception in 1997, the SFM team has expanded in terms of clients and product offerings. Today, SFM maintains relationships with 35 credit union clients totaling over \$19.0 billion in assets in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

In 2010 SFM signed new contracts with Alberta credit unions and sees a very large opportunity for further expansion in 2011 and 2012. New clients were added in Manitoba as increased regulation has created opportunity for services in that province as well.

Trust Operations

Concentra Trust is a wholly owned subsidiary of Concentra Financial and is responsible for developing and delivering a wide range of registered plans, personal and corporate trust products, services and programs. Trust services are delivered nationally to credit unions, corporations and individual customers. In 2010, Concentra Trust focused on delivering solutions to credit unions and improving revenue.

Corporate Trust

Corporate Trust ended the year with revenue that was approximately 28% higher than budgeted. Some older fee schedules were updated and a one-time lump sum payment was received from a file that was previously outstanding.

Personal Trust

Personal Trust ended the year slightly below budget. Estate Administration revenue was the cause of the shortfall as fewer, smaller sized estates were administered and the collection of some estate administration fees was deferred to 2011. The strategy of focusing on Estate Agency revenue began to produce results as revenues increased from \$46,000 in 2009 to \$102,000 in 2010. Concentra Trust continued to reinforce partnerships with credit unions through expansion of the innovative Executor EASE estate administration service and anticipates increased Estate Agency revenue in 2011 from this offering.

First Nation Trust services are also beginning to generate sustainable revenue. 2010 saw the addition of a second First Nation Trust account. The trust increased assets under administration by \$29.3 million and will generate approximately \$50,000 in annual administration fees.

Registered Plans

January 2010 brought the introduction of changes to registered plan trustee and administration fees. The intent was to modify trustee fees to be commensurate with risk and complexity and recover costs associated with administration. As a result, fees for RIF and RESP increased and fees for RSP either stayed the same or decreased. Overall, the pricing changes resulted in a modest increase in Registered Plan revenue of about 4%.

With enhancing the value of these programs as an ongoing priority for Concentra Trust, systems improvements to the electronic reporting solution for the Credit Union Deposit Program were implemented in December to support better service to credit unions.

Card Operations

The Card Operations held no active business assets in 2010 and as such there were no further capital requirements. The issued and outstanding Class C shares will remain until the expiration of the restriction period of the Non Compete Agreement. Upon the expiration, the Class C shares can be redeemed for the book value which is defined as the stated value of the Class C shares plus any remaining retained earnings allocated to the Class C shares. A dividend of \$5.7 million was paid in 2010 to the Class C shareholders. Distributions of the earnings of the Card Operations are paid to the Class C shareholders in accordance with the related Class C share agreements.

Risk Management Overview

As a financial institution, Concentra Financial takes on credit and market risk within the risk tolerance specified by the Board through policy to create value for its shareholders. These portfolios of risk reflect the company's competencies and capacities and are evaluated, managed, and priced on the basis of the changing business conditions in the competitive environment. Effective management of operational, strategic, liquidity, and legal and regulatory risk strengthens the ability of the company to achieve its objectives and meet obligations. Risk aware decisions, reflected in strategy and action, optimize opportunity and capacity to create value for shareholders.

Concentra Financial defines enterprise risk management as: a process, effected by a company's Board of Directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the company, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of corporate objectives.

The enterprise risk management objective of Concentra Financial is twofold:

- to improve shareholder value through optimization of risk and capital and risk-based decision making; and
- to perform well in a risk-based regulatory environment.

Key elements of the company's enterprise risk framework include: corporate governance and structure, policy, reporting, risk culture and risk categorization. The strong governance, ethics, values and principles of Concentra Financial provide a firm foundation for the company's risk culture.

Roles and Responsibilities

Board of Directors

The Board is responsible for overseeing an effective risk management process and approving the company's risk appetite on an annual basis. Within the umbrella of the risk appetite, risk tolerances are set by the Board through policy and provide the mechanism and basis for subsequent monitoring, measurement and reporting. All Board policies are reviewed annually.

On a quarterly basis, the Board reviews a Chief Risk Officer's Report, which includes commentary on economic uncertainties, regulatory developments, strategic and operational uncertainties that could impact the business plan, current risk levels relative to the corporate risk appetite, internal capital assessment and compliance with Board approved risk limits.

The Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk. The Audit and Risk Committee reviews quarterly risk reports in detail and recommends an enterprise risk framework to the Board that includes the company's risk appetite, philosophy and tolerances, risk management process and risk policies.

Management

Executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, assess, monitor and control risks. Risk reporting occurs on a regular basis through a formal reporting process.

Key risk management committees include:

- Executive Leadership Risk Committee – established by the Board, comprised of executive management, and responsible to:
 - assess key risk exposures;
 - direct action to manage risk levels;
 - direct actions to protect the company during a business continuity and/or pandemic event; and
 - recommend the company’s risk appetite to the Board.
- Asset-Liability Committee – established by the Board, comprised of executive, senior and operating management, and responsible to:
 - review, assess and approve the enterprise level management strategies of the balance sheet and monitor financial performance against these strategies;
 - review and discuss environmental conditions impacting the financial position and performance of the company including economic, financial and market conditions; and
 - perform a detailed review of interest rate risk, liquidity, cash flow, projected capital adequacy, and investment and derivative transactions.
- Credit Committee – established by the Board, comprised of members of executive management approved by the President and Chief Executive Officer and responsible to approve large credits upon the recommendation of the Chief Credit Officer.

Management and supervisory personnel are responsible for ensuring that policy and related standards and procedures are communicated to and understood by all employees. All employees are responsible for complying with policy and related standards and procedures, as well as participating in optimizing risk within their functional areas.

Oversight and Independent Functions

Concentra Financial has established a risk management division that recommends policy for risk tolerances, oversees and reports on risk, provides risk related decision support to the Board, management, and business units, and designs, develops, implements, and maintains the legislative compliance management framework for the company. The risk management division is segregated from other business units and is managed under the direction of the Executive Vice-President, Chief Risk Officer, Chief Compliance Officer who reports to the President and Chief Executive Officer, and has unfettered access to the Board.

Concentra Financial has an independent audit function, which provides independent and objective internal audit services to management and the Board. The internal audit mandate, which outlines the authority, responsibility and accountability of the internal audit function, is reviewed and approved by the Audit and Risk Committee at least every two years. The Vice-President, Internal Audit reports to the President and Chief Executive Officer and meets separately and in camera with the Audit and Risk Committee on a regular basis.

Risk Categories

The various risks encountered by the company are classified and defined within one of six categories: credit, market, liquidity, legal and regulatory, operational and strategic.

Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans, and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

Activities in place to manage the company's credit risk profile include: setting credit concentration policy limits by issuer group, issuer, industry and geographic region; restricting investments in unrated securities; implementing prudent credit granting criteria; effectively managing monitored and non-productive assets; undertaking conservative valuation and loss recognition practices; and undertaking stress testing.

The Chief Credit Officer plays a key role in managing the credit risk of Concentra Financial. The Chief Credit Officer manages the credit risk function, which is segregated from credit business generation activities, and is responsible for delegating credit approval limits to business units and approving loan, lease and mortgage applications in excess of the credit authority delegated. In addition, the Chief Credit Officer undertakes an overall systematic review of the credit adjudication process on an annual basis and reports the results to the Board.

The overall credit risk position is monitored in reference to an internally generated composite weighted average risk rating calculation. Further, quantitative assessment of credit risk is included in the internal capital assessment process.

The Monitored and Non-Productive Asset Report and the Large Lending Credits Report include information on credit quality and lending concentrations. Those reports are issued on a quarterly basis to the Audit and Risk Committee and the Board.

Market Risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk results primarily from timing differences in the repricing of assets and liabilities, both on- and off-balance sheet, as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability.
- Foreign exchange risk which results from movements in foreign exchange rates.

Activities in place to manage the company's market risk profile include: establishing prudent market risk limits, investing in marketable securities, utilizing off-balance sheet instruments to manage interest rate risk levels, simulating the impact of interest rate changes, monitoring exposure to foreign currencies and undertaking stress testing.

The market risk position is monitored in reference to the impact of interest rate changes on adjusted net interest income and the economic value of equity. Further, quantitative assessment of market risk is included in the internal capital assessment process.

The company does not have a trading program.

Liquidity Risk

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they come due, and without incurring unacceptable losses.

Activities in place to manage the company's liquidity risk profile include: establishing prudent liquidity policies, regular monitoring of cash flows, maintaining prudent levels of cash and cash equivalents, securitizing assets, maintaining external credit facilities, undertaking stress testing, maintaining a liquidity contingency plan and maintaining an investment grade market rating.

The liquidity risk position is monitored in reference to a liquid asset ratio calculation (liquid assets as a percentage of total assets). Further, quantitative assessment of liquidity risk is included in the internal capital assessment process.

Legal and Regulatory Risk

Legal and regulatory risk arises from an institution's potential non-conformance with laws, rules, regulations, prescribed practices or ethical standards in the jurisdiction in which the organization operates. This includes breaches in fiduciary duties or obligations in the course of providing investment advice to other persons or holding, administering, managing or investing assets on behalf of other persons.

The Chief Compliance Officer is responsible to ensure that key day to day legislative compliance management controls throughout the company are sufficiently robust to control compliance with all regulatory legislative requirements. Legislative compliance matters are reported to executive management and the Board. The Chief Compliance Officer Report, which includes information on legislative compliance, anti-money laundering and anti-terrorist financing, and privacy, as well as relevant legislative and regulatory change, is provided to the Conduct Review Committee and the Board on a quarterly basis.

Concentra Financial has a Chief Anti-Money Laundering Officer in place to manage corporate-wide measures to combat money laundering and terrorist financing activity risks within the company. The Chief Anti-Money Laundering Officer reports to executive management and the Board on anti-money laundering and anti-terrorist financing matters.

Concentra Financial has a Privacy Officer in place to monitor, report on, and be accountable on a day to day basis for the company's compliance with applicable federal and provincial privacy legislation.

In addition, Concentra Financial has a Code of Conduct/Conflict of Interest corporate policy that must be followed by all board members, officers and employees.

The company's policies set out requirements for the quantity and quality of capital the company is required to maintain, as well as policies that address capital impairment and dividends. On an annual basis management prepares a capital plan which projects future growth and recommends strategies to meet regulatory and internal capital obligations and achieve management objectives. The capital plan is presented to the Board with a capital plan risk perspective report. Management also calculates and reports regulatory capital and internal capital levels regularly throughout the year. Internal capital calculations supplement regulatory capital reporting by measuring capital required to be set aside to protect against possible future losses related to risk.

Operational Risk

Operational risk arises from problems in the performance of business functions or processes. Exposures to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures,

human errors or dishonesty, or natural catastrophes. Operational risk also includes reputation risk which arises from a lack of confidence in an institution by key stakeholders.

The key operational risk management objectives of the company are to:

- provide awareness of significant operational risk;
- facilitate appropriate decisions to act upon operational risk;
- empower business units with the responsibility and accountability for operational risks assumed; and
- monitor and report on operational risk.

The Executive Leadership Risk Committee assesses and monitors enterprise level operational risks on a quarterly basis. Through this process, key operational risks to the company are identified and assigned to members of executive management. Quantitative assessment of operational risk is included in the internal capital assessment process.

Strategic Risk

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision making and resource allocation, and an inability to adapt to changes in its business environment.

Strategic planning is conducted by the Board on a regular basis. Operational planning and budgeting is conducted by management to develop the annual business plan which is presented to the Board with a financial plan risk perspective report.

The Executive Leadership Risk Committee assesses and monitors enterprise level strategic risks on a quarterly basis. Through this process, key strategic risks to the company are identified and assigned to members of executive management. Quantitative assessment of strategic risk is included in the internal capital assessment process.

Regulatory Capital Management

Capital levels are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs and markets. Maintaining adequate regulatory capital is the goal in order to be considered well capitalized, protect customer deposits and provide capacity for internal growth and strategic opportunities, all the while providing a satisfactory return for shareholders.

Basel II

Since January 1, 2008, OSFI has required Canadian financial institutions to calculate, manage and report their regulatory capital ratios in accordance with a new capital management framework, commonly known as Basel II. Basel II is applied to Concentra Financial based on the consolidated financial statements. The company implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach to calculate risk-weighted assets for operational risk.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding accumulated other comprehensive income. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of subordinated debentures, which qualify as Tier 2B capital, less deductions as prescribed by OSFI. Total regulatory capital is defined

as the sum of Tier 1 and Tier 2 regulatory capital. For further details on the terms and conditions of share capital and subordinated debentures, refer to Notes 16 and 17 to the Consolidated Financial Statements and to Note 28 for additional disclosure on regulatory capital management.

Regulatory ratios are calculated by dividing Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The company does not meet the qualifying criteria for computing market risk, which is the value of the trading book assets or liabilities being at least 10% of total assets and exceeding \$1 billion. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Current OSFI targets are a minimum Tier 1 regulatory capital to RWA ratio of 7% and a minimum Total regulatory capital to RWA ratio of 10%. In addition to the Tier I regulatory capital to RWA ratio and Total regulatory capital to RWA ratio, Canadian financial institutions are required to ensure that their Assets to capital multiple, which is calculated by dividing gross adjusted assets by Total regulatory capital, does not exceed a maximum level prescribed by OSFI.

Throughout 2010 and 2009, the company has been in compliance with OSFI prescribed capital adequacy requirements.

The capital structure and regulatory ratios at year end are shown in the following table.

(Thousands of Dollars)	Basel II 2010	Basel II 2009
Tier 1 Capital		
Common shares	133,254	133,254
Retained earnings	82,618	69,141
Non-cumulative perpetual preferred shares	3,990	3,990
Goodwill	(19,248)	(19,248)
Securitization-related deductions	n/a	(570)
Other	n/a	(37)
Total Tier 1 Capital	200,614	186,530
Tier 2 Capital		
Subordinated debentures (Tier 2B)	73,350	73,350
Other	n/a	(36)
Total Tier 2 Capital	73,350	73,314
Total Regulatory Capital	273,964	259,844
Substantial investments	n/a	n/a
First-loss facility	n/a	n/a
Total Regulatory Capital	273,964	259,844
Risk-Weighted Assets		
Credit Risk	1,368,897	1,416,185
Market Risk	n/a	n/a
Operational Risk	168,183	147,738
Total Risk-Weighted Assets	1,537,080	1,563,923
Capital Ratios		
Tier 1 regulatory capital to risk-weighted assets	13.1%	11.9%
Total regulatory capital to risk-weighted assets	17.8%	16.6%
Assets to capital multiple	13.0X	14.2X

Risk-Weighted Assets

(Thousands of Dollars)	2010					
	Gross Credit Risk Exposure	Average of Risk Weights	Standardized Approach	Basic Indicator Approach	Other	Total RWA
Credit Risk						
Corporate	897,013	98%	879,902	n/a	n/a	879,902
Sovereign	503,603	0%	-	n/a	n/a	-
Bank	215,546	20%	43,109	n/a	n/a	43,109
Retail residential mortgages	1,749,950	18%	314,566	n/a	n/a	314,566
Other retail, excluding small business entities	545	75%	409	n/a	n/a	409
Equity	3,721	100%	3,721	n/a	n/a	3,721
Securitization exposures	196,005	35%	68,951	n/a	n/a	68,951
Other credit risk-weighted assets	112,600	52%	n/a	n/a	58,239	58,239
Total Credit Risk	3,678,983		1,310,658	n/a	58,239	1,368,897
Operational Risk			n/a	168,183	n/a	168,183
Total	3,678,983		1,310,658	168,183	58,239	1,537,080

(Thousands of Dollars)	2009					
	Gross Credit Risk Exposure	Average of Risk Weights	Standardized Approach	Basic Indicator Approach	Other	Total RWA
Credit Risk						
Corporate	885,273	93%	823,882	n/a	n/a	823,882
Sovereign	376,411	2%	7,516	n/a	n/a	7,516
Bank	457,559	20%	91,512	n/a	n/a	91,512
Retail residential mortgages	1,827,643	20%	361,726	n/a	n/a	361,726
Other retail, excluding small business entities	235	75%	176	n/a	n/a	176
Equity	3,770	100%	3,770	n/a	n/a	3,770
Securitization exposures	149,378	50%	75,328	n/a	n/a	75,328
Other credit risk-weighted assets	102,215	51%	n/a	n/a	52,275	52,275
Total Credit Risk	3,802,484		1,363,910	n/a	52,275	1,416,185
Operational Risk			n/a	147,738	n/a	147,738
Total	3,802,484		1,363,910	147,738	52,275	1,563,923

Subsidiary Capital

Concentra Trust has individual responsibility for maintaining compliance with regulatory capital adequacy requirements. Throughout 2010 and 2009, Concentra Trust has been in compliance with OSFI prescribed capital adequacy requirements.

The following table provides the regulatory ratios at year end.

	Basel II 2010	Basel II 2009
Capital Ratios		
Tier 1 regulatory capital to risk-weighted assets	54.9%	93.6%
Total regulatory capital to risk-weighted assets	54.9%	93.6%
Assets to capital multiple	1.8X	1.0X

Future Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed that all profit-oriented Publicly Accountable Enterprises (PAE) in Canada will convert to International Financial Reporting Standards (IFRS) for fiscal years beginning January 1, 2011. Enterprises, such as credit unions and Concentra Financial, which hold assets in a fiduciary capacity for a broad group of outsiders, are considered to be included in PAE. Based on a fiscal year end of December 31, the conversion date for Concentra Financial will be January 1, 2011. Since the implementation of IFRS involves restating financial statements as if IFRS had always been the basis of accounting, and since Concentra Financial provides one year of comparative information, IFRS is being implemented for fiscal 2010 to provide comparative information for 2011 financial reporting.

Concentra Financial developed an IFRS transition plan and worked with the National Credit Union IFRS Readiness Project (National Project) which was led by Credit Union Central of Canada. The transition plan involved leveraging the work and templates of the various working groups established under the National Project in late 2008.

In addition to its participation in the National Project, Concentra Financial established an IFRS Transition Project Team which was made up of a Steering Committee and an internal Project Team. Project charters were developed for both phases of the project; the discovery phase and the implementation phase. The internal Project Team was facilitated by the Project Management Office and consisted of members of the Chief Financial Office as well as representatives from other business and functional areas.

The discovery phase began in late 2008 with the completion of a diagnostic assessment to identify the areas with significant differences between IFRS and existing Canadian generally accepted accounting principles (CGAAP). The Project Team used the diagnostics toolkit developed by the National Project to identify and assess the significant impacts of the transition to IFRS. Based on this assessment, detailed work plans were developed to analyze processes and accounting policies to determine the impacts of IFRS on current financial and regulatory reporting and on the businesses undertaken by the company. Accounting policy position papers were developed, impacts were analyzed and a conversion roadmap developed for financial and regulatory reporting, information systems and processes, and financial and business related impacts. In the implementation phase, the applicable IFRS accounting policies were used to develop 2010 comparative financial reporting information.

Management established recurring communications with the Audit and Risk Committee and the Board of Directors. Ongoing discussions on policy positions and approaches occurred with external audit. In addition, regular information sharing and semi-annual reporting to OSFI has occurred since early 2009.

Policy Choices

When an entity first issues financial statements using IFRS, the financial statements are issued as if IFRS had always been the accounting standards being applied and are based on the IFRS standards effective at the end of the first reporting period. Entities must select from among the policy choices that are available within the IFRS standards.

Under various standards of IFRS, entities are allowed to select between two different accounting policies. The two different approaches can provide significantly different reported results. An entity selects which of the options it intends to use when it first reports using IFRS.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) provides optional exemptions to the retrospective application of IFRS. Entities can select which of these optional exemptions it will use when transitioning to IFRS. IFRS 1 also provides certain mandatory exceptions to the retrospective application of IFRS. Entities are permitted retrospective application only if all requirements are met.

As a result of these policy choices, optional exemptions and mandatory exceptions, Concentra Financial has identified the selections that it intends to make on the transition to IFRS. In making the choices, Concentra Financial has been guided by the following principles:

- To be guided by regulatory capital requirements so as not to create differences between accounting and regulatory capital balances other than those required by IFRS.
- To consider the impacts on financial reporting and the maintenance of accounting records.
- To consider the impacts on, and fluctuation in, reported net income.
- To consider the impacts on business operations of the business lines.

Based on this approach, the significant policy choices expected to be made upon transition to IFRS are summarized below.

Derecognition of Financial Assets and Financial Liabilities – IFRS 1 permits entities to only apply IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) to transactions that occurred on or after January 1, 2004. This date was revised to 'the date of transition to IFRS' in an amendment to the standard issued in December, 2010. The amended standard is effective for years beginning on or after July 1, 2011, with earlier application permitted. OSFI ruled on February 3, 2011, that early application will not be permitted. Since the use of the date of transition to IFRS will not be permitted, Concentra Financial intends to elect to use the requirements of IAS 39 to assess only derecognition transactions that occurred on or after January 1, 2004.

Business Combinations – IFRS 1 permits entities to not apply IFRS 3 *Business Combinations* retrospectively to past business combinations that have occurred before the date of transition to IFRS. Concentra Financial intends to make this election so that an assessment of business combinations that occurred prior to January 1, 2010, is not required.

Financial Instruments – An entity is permitted to re-designate previously recognized financial assets or financial liabilities at the date of transition to IFRS. Concentra Financial intends to continue with the designations currently utilized for financial instruments under current financial reporting.

Premises and Equipment – An entity can choose the cost model or the revaluation model as its accounting policy for measurement of premises and equipment after initial recognition. Under the revaluation model, premises and equipment could be carried at its fair value at each reporting date. Concentra Financial intends to continue to use the cost model.

An entity may elect to measure premises and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date. Concentra Financial does not intend to elect to use this option and will continue to use the original cost.

Critical Accounting Differences

Under the existing CGAAP, an entity records a sale of financial assets and removes the financial assets from the entity's balance sheet when the entity is deemed to have surrendered control over those assets. Thus Concentra Financial records a sale of financial assets when this control has been surrendered.

The criteria in IAS 39 determine when a financial asset is derecognized, a sale recorded and the financial asset removed from the balance sheet. Under IFRS, the requirement to record the sale is dependent upon more extensive tests that involve measuring the risk and rewards before and after the transaction and include the transfer of control as a secondary focus. If substantially all of the risks and rewards have not been transferred to the transferee, then the entity continues to carry the financial assets on its own balance sheet.

Concentra Financial has recorded sales of financial assets and in turn, removed financial assets from the balance sheet based on the CGAAP requirements. When applying the derecognition requirements in IAS 39, not all the programs that Concentra Financial is involved in will meet the requirement for continued derecognition. In particular, residential mortgages that have been securitized and derecognized from the current CGAAP balance sheet will be brought back onto the balance sheet under IFRS as substantially all of the risks and rewards have not been transferred to the transferee. The unearned portion of previously recognized gains will be included in the transition adjustment as a reduction in retained earnings and the remaining amount will be reported in net income over the remaining term of the mortgages. Other loan and lease programs will continue to meet the requirements for derecognition and will not be impacted by the transition to IFRS.

The following areas are expected to result in transition adjustments:

- Residential Mortgage Securitizations – The most significant transition adjustment will be a result of the impact from the derecognition criteria in IAS 39. This will result in the current off-balance sheet securitization programs related to residential mortgages being accounted for on-balance sheet.
- Intermediary Securitizations – Concentra Financial has acted as a facilitator between credit unions and CMHC for credit unions to access the Canada Mortgage Bond (CMB) program. Since Concentra Financial was the issuer under the program, any mortgage-backed securities (MBS) created carry risks and rewards for Concentra Financial. Since the risks and rewards do not allow Concentra Financial to derecognize these MBS, IFRS results in these MBS being recorded in securities on the balance sheet.
- Premises and Equipment – Adjustments will result from the IFRS requirements to separate the building into significant components and to consider the residual value of the building for depreciation purposes.
- Allowance for Credit Losses – Adjustments will result from the changes in methodology from the current specific and general provisions to individual and collective provisions. Under the IFRS methodology being implemented, loans are placed into categories and a collective allowance is calculated based on the default experience within the category and the security available in the event of default. Also under IFRS, loans that are considered impaired continue to accrue interest and thus the amount of individual provisions must take the accrued interest into consideration.
- Employee Benefits – Adjustments will result from timing differences of when certain employee benefits are recorded as an expense.
- Income Taxes – Adjustments will result from the deferred income tax impacts from other transition adjustments.

The disclosure requirements under IFRS are significantly greater than under CGAAP. The format of the 2011 financial statements including notes is currently being developed.

The standard setting environment at the current time is evolving to achieve a greater consensus in the international accounting community and to take into consideration the financial and economic impacts of the global economic downturn of the past several years. The standards currently included in IFRS are expected to change over the next several years. Concentra Financial will continue to monitor changes in standards and in OSFI guidance and will adjust the IFRS transition plan as warranted.

Impact on Regulatory Reporting

The requirements for regulatory reporting are established by OSFI. Starting in 2011, regulatory reporting will be based on IFRS financial reporting. OSFI has recognized that the transition to IFRS will result in significant changes for financial reporting and thus to regulatory reporting. OSFI has identified that applying the derecognition requirements of IFRS will result in significantly higher asset balances.

To assist federally regulated entities in the transition to IFRS, OSFI will provide relief in two forms:

OSFI will permit insured mortgages sold through specific securitization programs up to and including March 31, 2010, to be excluded from the Assets to capital multiple. For transactions under the CMB program completed up to and including March 31, 2010, all existing and future reinvestments newly reported on the balance sheet as a result of IFRS will also be excluded from the Assets to capital multiple. Likewise, MBS created under the intermediary securitizations program will be treated the same.

Due to the retrospective application of IFRS, the restatement of the balance sheet will involve the restatement of retained earnings. The change to retained earnings will also impact regulatory capital. Therefore, OSFI will permit entities to make an irrevocable election to phase in the impact of conversion to IFRS on retained earnings. The phase in period for regulatory capital purposes begins at the date of conversion to IFRS and must be completed by the quarter ending December 31, 2012.

Concentra Financial intends to elect to use the phase in period allowed by OSFI. Based on the exclusion of certain insured mortgages and reinvestment assets as permitted by OSFI and the use of the phase in period provided by OSFI, Concentra Financial has projected regulatory ratios for 2011 to 2013 and has concluded that all regulatory requirements can be met following the conversion to IFRS.

Management Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Concentra Financial Services Association (Concentra Financial) were prepared by management who is responsible for the integrity and fairness of the information presented and for ensuring that all the information in the annual report is consistent with the Consolidated Financial Statements. This responsibility includes the selection of appropriate accounting policies and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada.

In discharging this responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains the necessary systems of internal control to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This control is augmented by written policies and procedures, the careful selection and training of qualified staff, the creation of organizational structures that provide a well defined division of responsibilities and the communication of policies and guidelines for business conduct throughout Concentra Financial. This system of internal controls is supplemented by an internal audit function which carries out periodic reviews of the operations of Concentra Financial.

The Board of Directors carries out its responsibilities for reviewing the Consolidated Financial Statements through its Audit and Risk Committee which is composed entirely of directors who are neither officers nor employees of Concentra Financial. The Audit and Risk Committee reviews the Consolidated Financial Statements and recommends approval to the Board of Directors. Other responsibilities of the Audit and Risk Committee include meeting regularly with management, internal audit and the company's external auditors, Deloitte and Touche LLP, to discuss the effectiveness of internal controls over the financial reporting process as well as the planning and results of the external audit. Both the external and internal auditors have full and free access to the Audit and Risk Committee.

The Superintendent of Financial Institutions Canada examines and inquires into the business affairs of Concentra Financial as deemed necessary to determine whether the provisions of the *Cooperative Credit Associations Act (Canada)* are being duly observed and that Concentra Financial is in a sound financial condition.

External auditors are appointed by the members of Concentra Financial, upon the recommendation of the Audit and Risk Committee, to perform an independent audit of the Consolidated Financial Statements and provide an opinion thereon; their report is presented separately.

February 22, 2011

Ken Kosolofski, President and Chief Executive Officer

Daryl Kelln, Executive Vice-President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Members of Concentra Financial Services Association

We have audited the accompanying consolidated financial statements of Concentra Financial Services Association and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income, comprehensive income, retained earnings and accumulated other comprehensive income (loss), and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Concentra Financial Services Association and its subsidiaries 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.



Chartered Accountants

Regina, Saskatchewan
February 22, 2011

CONSOLIDATED BALANCE SHEET

DECEMBER 31
(Thousands of Dollars)

	2010	2009
ASSETS		
Cash resources	20,407	14,298
Securities (Note 5)	845,577	959,380
Loans (Notes 6 and 7)	2,598,311	2,613,807
Premises and equipment (Note 9)	3,172	3,446
Goodwill (Note 10)	19,248	19,248
Other assets (Note 11)	82,334	76,183
Assets from discontinued operations (Note 3)	3,994	8,883
	3,573,043	3,695,245
LIABILITIES		
Deposits (Note 13)	3,151,894	3,097,872
Loans and notes payable (Note 14)	48,462	243,577
Other liabilities (Note 15)	73,038	70,957
Subordinated debentures (Note 16)	73,832	73,732
Liabilities from discontinued operations (Note 3)	1,370	3,204
	3,348,596	3,489,342
MEMBERS' EQUITY		
Share capital (Note 17)	137,244	137,244
Retained earnings	82,618	69,141
Accumulated other comprehensive income (loss)	4,585	(482)
	224,447	205,903
	3,573,043	3,695,245

See accompanying notes

Approved by

Ken Kosolofski, President and Chief Executive Officer
Allan Morin, Director and Chair, Audit and Risk Committee
Wayne G. McLeod, Board Chair

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2010	2009
INTEREST INCOME		
Loans	122,494	138,792
Securities	23,758	29,555
	146,252	168,347
INTEREST EXPENSE		
Deposits	79,746	108,879
Loans and notes	1,146	683
Subordinated debentures	3,676	3,235
Other direct expenses	1,182	555
	85,750	113,352
NET INTEREST INCOME	60,502	54,995
Provision for credit losses (Note 7)	3,069	600
NET INTEREST MARGIN	57,433	54,395
NON-INTEREST INCOME		
Fee for service	8,848	8,600
Gain on securities (Note 5)	6,597	4,534
Income from securitized assets (Note 8)	13,690	24,754
Other non-interest income	5,540	5,675
Unrealized and realized gains (losses) on derivatives (Note 23)	(11,342)	(13,663)
	23,333	29,900
	80,766	84,295
NON-INTEREST EXPENSE		
Salaries and employee benefits	29,353	29,827
Professional and advisory services	10,438	11,421
Occupancy	1,677	1,666
General business (Note 19)	14,282	5,897
	55,750	48,811
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	25,016	35,484
Provision for income taxes (Note 20)	2,524	6,497
NET INCOME FROM CONTINUING OPERATIONS	22,492	28,987
Income from discontinued operations, net of tax (Note 3)	1,666	1,715
NET INCOME	24,158	30,702

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2010	2009
NET INCOME	24,158	30,702
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Net unrealized gains (losses) on available-for-sale securities	9,888	17,358
Reclassification of (gains) losses on available-for-sale securities to income	(4,821)	(4,815)
OTHER COMPREHENSIVE INCOME	5,067	12,543
TOTAL COMPREHENSIVE INCOME	29,225	43,245

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2010	2009
RETAINED EARNINGS		
Balance, beginning of year	69,141	38,702
Net income	24,158	30,702
Dividends, Class A shares	(6,661)	-
Dividends, Class B shares	(311)	(311)
Dividends, Class C shares	(5,652)	-
Reduction in income taxes (Note 20)	1,943	48
RETAINED EARNINGS, END OF YEAR	82,618	69,141
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	(482)	(13,025)
Other comprehensive income	5,067	12,543
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	4,585	(482)
RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	87,203	68,659

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31
(Thousands of Dollars)

	2010	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income from continuing operations	22,492	28,987
Adjustments to determine net cash from (used in) operating activities		
Amortization of premises and equipment (Note 9)	786	960
Other amortization	25,491	8,133
Provision for credit losses (Note 7)	3,069	600
Realized losses (gains)	8,638	22,625
Net gains from asset securitizations (Note 8)	(11,335)	(22,784)
Future income taxes	3,434	(5,909)
Changes in operating assets and liabilities		
Net accrued interest receivable and payable	(2,544)	(9,745)
Net unrealized gains on derivatives (Note 23)	(4,317)	(15,704)
Current income taxes	(1,713)	(372)
Other assets	(13,011)	(6,364)
Other liabilities	(5,089)	(13,881)
Net cash provided by (used in) operating activities from continuing operations	25,901	(13,454)
Net cash (used in) provided by operating activities from discontinued operations (Note 3)	(900)	1,545
Net cash from (used in) operating activities	25,001	(11,909)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities	1,190,323	4,086,204
Purchase of securities	(1,074,205)	(4,173,162)
Change in loans, net of loan securitizations	(425,311)	(276,762)
Net proceeds from loan securitizations (Note 8)	437,689	557,931
Premises and equipment purchases, net of disposals	(512)	(513)
Net cash provided by investing activities from continuing operations	127,984	193,698
Net cash provided by (used in) investing activities from discontinued operations (Note 3)	5,621	(1,434)
Net cash from investing activities	133,605	192,264
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Deposits, net of withdrawals	53,299	(426,234)
Loans and notes payable, net of repayments	(195,115)	233,696
Proceeds from issuance of subordinated debentures (Note 16)	-	19,990
Dividends paid	(6,972)	(311)
Distributions from discontinued operations	111	111
Reduction in income taxes from dividends paid	901	48
Net cash used in financing activities from continuing operations	(147,776)	(172,700)
Net cash used in financing activities from discontinued operations (Note 3)	(4,721)	(111)
Net cash used in financing activities	(152,497)	(172,811)
NET INCREASE IN CASH RESOURCES	6,109	7,544
Cash resources from continuing operations, beginning of year	14,298	6,754
Cash resources from discontinued operations, beginning of year	-	-
CASH RESOURCES FROM CONTINUING OPERATIONS, END OF YEAR	20,407	14,298
CASH RESOURCES FROM DISCONTINUED OPERATIONS, END OF YEAR	-	-
SUPPLEMENTAL INFORMATION		
Amount of interest paid in year	82,661	127,996
Amount of income taxes paid in year	7,956	960

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INCORPORATION AND GOVERNING LEGISLATION

Effective December 31, 2004, Co-operative Trust Company of Canada was continued as Concentra Financial Services Association (the Company) and carries on business pursuant to the *Cooperative Credit Associations Act (Canada)*.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with subsection 292(4) of the *Cooperative Credit Association Act (Canada)* which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net income. Certain estimates including allowances for credit losses, goodwill, fair values of financial instruments, income taxes and accounting for securitizations require management to make subjective and complex judgments. Accordingly, actual results could differ from those estimates thereby impacting the consolidated financial statements.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below.

Basis of Consolidation

The Company conducts business through various corporate structures including subsidiaries and other investments. The consolidated financial statements include the Company's assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of all subsidiaries and variable interest entities for which the Company has determined it is the primary beneficiary.

The Company applies the principles of equity accounting for investments where the Company has significant influence over operating, investing and financing activities of an entity. For the sole investment in a variable interest entity for which the Company was determined not to be the primary beneficiary the investment was recorded using the equity method. Under the equity method, the investment was initially recorded at cost and was adjusted for the Company's proportionate share of net income or loss and dividends received.

The following are included in the consolidated financial statements of the Company:

Concentra Trust –The Company owns 100% of the common shares of Concentra Trust; as such, these consolidated financial statements include the assets and liabilities and results of operations of this wholly owned subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

CAI Acquiring Inc. – The Company owned 100% of the common shares of CAI Acquiring Inc. (CAI Acquiring), but sold the investment on January 1, 2009 (Note 21). The Company had determined CAI Acquiring was a variable interest entity in which the Company was not the primary beneficiary; as such, the Company's investment in CAI Acquiring was being accounted for under the equity method of accounting. Income was recorded in non-interest income in the discontinued operations.

Celero Solutions – The Company's 5.8% interest in Celero Solutions, an unincorporated entity, is recorded using the cost method of accounting. Under this method the investment is initially recorded at cost and income is recognized only to the extent any distributions are received or receivable. Losses, other than a temporary decline in value, are recorded in other non-interest income.

Significant Accounting Changes

On January 1, 2009, the Company adopted one accounting standard and two accounting standard amendments that were issued by the Canadian Institute of Chartered Accountants (CICA): handbook Section 3064, *Goodwill and Intangible Assets*; amendment to handbook Section 3855, *Financial Instruments – Recognition and Measurement*, and amendment to handbook Section 3862, *Financial Instruments – Disclosures*.

Section 3064, which replaced Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*, established standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill were unchanged from the standards included in the previous Section 3062. As a result of adopting the standard in 2009, certain software costs previously recorded in premises and equipment were recorded as other intangible assets in the consolidated balance sheet with restatement of prior year balances. Accordingly, the Company reclassified \$1,566 as at December 31, 2009, from premises and equipment to other intangible assets.

Amendments to Section 3855 related to the topics of the effective interest method and the impairment of financial assets. The amendment provided clarification that the effective interest method is a method of calculating the amortized cost of one or a group of financial assets or financial liabilities for the purposes of determining impairment and of allocating the interest income or interest expense over the relevant period. This guidance did not have a material effect on the financial position or earnings of the Company.

The amendments with respect to impairment of financial assets included changing the classification into which debt instruments are required and permitted to be classified and eliminating the distinction between debt securities and other debt instruments. As a result, debt instruments that are not quoted in an active market may be classified as loans and receivables, and impairment will be assessed using the incurred credit loss model. Loans and receivables that the Company intends to sell immediately or in the near term must be classified as held-for-trading and loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale.

The amendments also permitted reclassifying financial assets from the held-for-trading and available-for-sale classification into the loans and receivables classification under specified circumstances. They also required reversing an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The adoption of this amendment did not have a material impact on the financial position or earnings of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to Section 3862 resulted in additional note disclosure with respect to fair value measurements and liquidity risk.

Cash Resources

Cash resources consist of cash and securities maturing within one business day.

Securities

Securities are classified as available-for-sale and held-for-trading.

Investments in equity and debt securities, which may be sold in response to changes in market conditions or for liquidity purposes, are classified as available-for-sale securities. These securities are carried at their fair value with the difference between the fair value and amortized cost recorded in accumulated other comprehensive income (loss) (AOCI), net of tax. Purchase premiums or discounts on available-for-sale securities are amortized over the life of the security using the effective interest method and are recognized in securities interest income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Gains and losses realized on disposal of available-for-sale securities are included in gain on securities. Dividend and interest income accruing on available-for-sale securities is recorded in securities interest income. These securities are also subject to periodic impairment review. Declines in fair value deemed to be temporary are recorded in other comprehensive income (OCI) and those deemed to be other than temporary are recorded in net income. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recorded in other direct expenses.

When securities contain embedded derivatives where it is not reasonably possible to separately estimate a reliable fair value for the embedded derivatives, the combined securities and embedded derivatives are classified as held-for-trading securities and reported at their total fair value. Realized and unrealized gains and losses on these securities are recorded in gain on securities. Interest income accruing on held-for-trading securities is recorded in securities interest income. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recorded in other direct expenses. The Company does not have a trading program for securities.

Securities under repurchase agreements are treated as collateralized borrowing transactions and are classified as available-for-sale and recorded at fair value. Interest incurred on repurchase agreements is included in loans and notes interest expense. Obligations related to assets sold under repurchase agreements are recorded in loans and notes payable.

Loans

Loans are recorded at amortized cost, less any allowances for credit losses plus accrued interest. Debt instruments that are not quoted in an active market are classified as loans and receivables and impairment is assessed using the incurred credit loss model. Loans that the company intends to sell immediately or in the near term are classified as held-for-trading. Loans for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are classified as available-for-sale.

Loans are classified as impaired and the accrual of interest is discontinued when, in management's judgment, there is no longer reasonable assurance of the timely repayment of principal and interest.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectability of principal or interest.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property held for resale acquired through the settlement of loans is valued at the lower of the outstanding balance of the loan at the date of acquisition adjusted for costs incurred subsequent to foreclosure or repossession and the estimated net realizable value of the property.

Loan fees, premiums and commissions paid on the acquisition of loans are amortized to loan interest income using the effective interest method.

Allowance for Credit Losses

The Company maintains an allowance to absorb credit-related losses in portfolios of both on- and off-balance sheet items. The allowance for credit losses consists of specific and general allowances, which are reviewed by management on a quarterly basis. The allowance for credit losses is deducted from the related asset category.

Specific allowances are established as a result of reviews of individual assets and represent the amount required to reduce the carrying values to estimated realizable amounts. For loans, specific allowances are established by reviewing specific arrears, the credit-worthiness of individual borrowers and the collateral underlying the loan. When there is reasonable doubt that the full amount of principal and interest will be collected, the carrying amount of the loan is reduced to its estimated realizable value. In cases where it is practical to estimate future cash flows, the loan is written down to the estimated future net cash flows from the loan discounted at the rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in carrying value of the loan are charged to the provision for credit losses.

General allowances are established to reflect provisions for losses which are prudent in nature but cannot be determined on an individual basis. The Company maintains general allowances at a level commensurate with the underlying credit risk within the Company's loan portfolio based upon management's judgment considering historical credit experience, portfolio composition and business and economic conditions.

Asset Securitization

The Company periodically securitizes groups of assets by selling them to independent special purpose trusts. As part of these transactions, the Company generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including over-collateralization, rights to excess spread and a cash reserve account.

Securitization transactions are recorded in accordance with Canadian accounting guidelines for transfers of receivables. These transactions are accounted for as sales and the assets are removed from the consolidated balance sheet when the Company is deemed to have surrendered control over the assets and receives consideration other than the beneficial interests in the transferred assets.

Gains and losses on these transactions are recorded in income from securitized assets on the date of the transaction and depend in part on the allocation of the previous carrying amount between the assets sold and any retained interests based on their relative fair value at the date of transfer.

Fair value is based on market prices when available. However, as quotes are usually not available for retained interests, fair value is determined using the present value of future expected cash flows estimated in relation to assumptions on yield, payment rates, excess spread, the cost of funds, credit losses, and discount rates commensurate with the risks involved.

34 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retained interests in securitized assets are classified as securities on the consolidated balance sheet and recorded at the lower of the allocated carrying value and the fair value. Retained interests are periodically reviewed for impairment and those impairments deemed to be other than temporary are recorded in income from securitized assets.

Assets are transferred on a fully serviced basis. When the benefits of servicing provide more than adequate compensation, a servicing asset is recognized in other assets. When the benefits of servicing are not expected to be adequate, a servicing liability is recorded in other liabilities. A servicing asset or liability is recorded at fair value at the date of sale and is amortized to income over the average expected life of the assets. Servicing assets and liabilities are periodically reviewed for impairment or increased obligation with any impairment or increased obligation charged to income from securitized assets.

Premises and Equipment

Premises and equipment are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the related assets which has been determined to be: 40 years for the building; 5 years for building improvements; 10 years for office equipment and 3 to 5 years for computer equipment. Gains and losses on disposals are recorded in non-interest expense.

Other Intangibles

Other Intangibles are stated at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the software which has been determined to be 3 to 5 years.

Business Combinations, Goodwill and Intangibles

All business combinations are accounted for using the purchase method of accounting. Goodwill represents the excess of the purchase price over the fair value of net identifiable assets acquired in business combinations and is assigned to specific reporting units of a business segment. Goodwill is evaluated for impairment on an annual basis or more often if events or circumstances indicate there may be impairment. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill. Any goodwill impairment is charged to income in the period in which the impairment is identified.

Identifiable intangibles are recognized separately from goodwill and are included in other assets. Intangible assets with a finite life arising from the acquisition of business assets are recorded at their fair value at the time of the purchase and amortized on a straight-line basis over the period in which the Company expects to derive the economic benefit from those assets.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income taxes are determined based on the difference between the carrying value of assets or liabilities and their tax bases using the tax rates expected to be in effect when the asset or liability is settled. Income taxes recorded in the consolidated statement of income include the current and future portion of the expenses. Income taxes applicable to items charged to members' equity are netted against such items. Future income tax assets and future income tax liabilities are recorded in other assets or other liabilities as applicable.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Company follows a fair value hierarchy to categorize the inputs used to measure fair value. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which the Company has immediate access (Level 1). Where bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable (Level 2). In limited circumstances, the Company uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3). The Company believes that using possible alternative assumptions will not result in significantly different fair values.

The credit quality of financial assets and financial liabilities, including derivative instruments, is considered in determining the fair value of these instruments. In determining the credit quality of the instrument both the Company's own credit risk and the risk of the counterparty are considered elements of this credit quality.

Comprehensive Income

Comprehensive income consists of net income and OCI, net of tax. Comprehensive income represents changes in members' equity during the year arising from transactions and other events with non-owner sources. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company includes in the consolidated financial statements a consolidated statement of comprehensive income for the changes in these items. The cumulative changes in OCI are included in AOCI, which is presented as a category of members' equity on the consolidated balance sheet.

Financial Instruments – Recognition and Measurement

Standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives require that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Commissions on residential mortgages originated by the Company, and transaction costs incurred in the issuance of subordinated debentures, are capitalized on initial recognition and amortized using the effective interest method. Other transaction costs on financial instruments are expensed as incurred.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recorded in gain on securities. Financial assets classified as loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets are presented as securities on the consolidated balance sheet and measured at fair value with unrealized gains and losses being recorded in OCI.

36 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in unrealized and realized gains and losses on derivatives, with the exception of derivative instruments designated in effective cash flow hedges which are recorded in OCI.

Other significant accounting implications include the use of the effective interest method for capitalized transaction costs or fees, premiums or discounts earned on financial instruments measured at amortized cost, and the recognition of the inception fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, Disclosure of Guarantees. Subsequent re-measurement at fair value is not required unless the financial guarantee also meets the definition of a derivative. These guarantees are re-measured at fair value and reported as a derivative in other assets or other liabilities, as appropriate.

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Company enters into derivative transactions to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. The Company does not have a trading program for derivatives. The Company also enters into derivative transactions on an intermediary basis on behalf of credit unions.

Economic and asset/liability management derivatives are used to manage interest rate and currency exposure on the Company's balance sheet, but do not meet the specific criteria to qualify as hedge derivatives. These derivatives include contracts that reposition the Company's overall interest rate and foreign exchange risk profile. Bond options are part of interest rate derivatives and the option premium is included in fee for service income.

Economic and asset/liability management derivatives are reported on the balance sheet at their fair value. Derivatives with a positive fair value are recorded in other assets as derivative related assets and derivatives with a negative fair value are recorded in other liabilities as derivative related liabilities. Realized gains and losses are recorded in unrealized and realized gains (losses) on derivatives. Unrealized gains and losses are recorded in unrealized and realized gains (losses) on derivatives.

The Company may enter into derivative contracts or may act as an intermediary on behalf of a client or credit union utilizing derivative contracts. These derivatives do not qualify for hedge accounting and are carried at fair value on a gross basis as derivative-related amounts in other assets or other liabilities with changes in fair value recorded in unrealized and realized gains (losses) on derivatives.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; and, c) the combined instrument or contract is not measured at fair value with changes in fair value recorded in unrealized and realized gains (losses) on derivatives. These embedded derivatives are measured at fair value with changes therein recorded in unrealized and realized gains (losses) on derivatives. The Company selected January 1, 2003, as the transition date for embedded derivatives; as such those contracts issued, acquired or substantively modified on or after the transition date were examined.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company uses derivatives and non-derivative financial instruments in hedging strategies to manage its exposures to interest rate and foreign currency risks. When derivatives are used to manage exposures, the Company determines for each derivative whether hedge accounting can be applied. Hedge accounting is applied where a derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the underlying asset or liability. The hedging relationship is documented at inception detailing the hedging relationship and the particular risk management objective and strategy for undertaking the hedge transaction. The documentation must demonstrate a high correlation at inception and throughout the contract period between the derivative contract and the Company's exposure. If these criteria are not met, the derivative contract does not qualify for hedge accounting treatment and is designated as asset/liability management. When derivatives qualify for hedge accounting, the net return is recognized over the life of the agreement as an adjustment to net interest income.

Hedge accounting is discontinued prospectively when it is determined that the derivative is not highly effective as a hedge, or the derivative is terminated or sold. Any gains or losses previously recognized in OCI are carried forward and recognized in net interest income in the same period or periods during which the hedged item affects income. Hedge accounting is also discontinued upon the sale or early termination of the hedged item and any gains or losses previously recognized in OCI are charged to net interest income immediately upon closing of the hedged item.

Cash flow hedge

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recorded in OCI while the ineffective portion is recorded in net interest income. When hedge accounting is discontinued, the amounts previously recorded in OCI are reclassified to net interest income during the periods when the variability in the cash flows of the hedged item affects net interest income. Gains and losses on derivatives are reclassified immediately to net income when the hedged item is sold or early terminated. The Company uses interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability, and all components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness.

Fair value hedge

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognized in net interest income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognized in net interest income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to net income over the remaining term of the original hedging relationship.

The Company predominantly uses interest rate swaps to hedge exposure to the changes in a fixed interest rate instrument's fair value caused by changes in interest rates.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Fee for service revenues are recognized over the period in which the related service is rendered.

Trustee fees are recognized over the period in which the related service is rendered. Estate administration fees are recognized as income when the Company has rendered all services and is entitled to collect the fee.

Assets Under Administration

Assets administered or managed by the Company on behalf of estates, trusts and agencies are recorded separately from the Company's assets and are not included on the consolidated balance sheet.

Subordinated Debentures

Transaction costs, premiums and discounts incurred in the issuance of subordinated debentures are amortized to interest expense using the effective interest method.

Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board announced that all publicly accountable entities, such as the Company due to its fiduciary responsibilities, will be required to adopt International Financial Reporting Standards (IFRS) for financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian generally accepted accounting principles to IFRS will be applicable to the Company for the year ending December 31, 2011.

3. DISCONTINUED OPERATIONS

Effective January 1, 2008, CAI Acquiring sold its partnership interest in Unified Network Payment Solutions (UNPS).

On May 30, 2007, it was announced that an agreement was reached to sell the retail credit card business. This transaction required approval of OSFI, which was received on September 21, 2007. The sale transaction date was October 1, 2007.

As a condition of the purchaser purchasing the net assets of the retail credit card business, the Company entered into a non-competition and non-solicitation agreement (NCA) with the purchaser. The NCA imposes certain restrictions on the Company including restrictions on business activities involving credit cards and on business restructurings, such as mergers, acquisitions and sales, involving an entity that offers credit card services or holds credit risk associated with credit cards other than for passive investment purposes. The purchase price allocated to this NCA has been deferred and is being amortized from the date of sale over the four year restriction period. As such, the amount that is attributed to the period after year end is recorded as deferred revenue and will be recorded in net income over the remaining months of the restriction period. The allocation of the NCA amount recorded in net income is 7% to the Class A shareholders and 93% to the Class C shareholders.

The related assets and liabilities have been reported as assets from discontinued operations and liabilities from discontinued operations on the consolidated balance sheet. The related results of operations have been presented as discontinued operations in the consolidated statement of income and cash flows for the periods presented.

3. DISCONTINUED OPERATIONS (continued)

	2010 (\$)	2009 (\$)
Statement of Assets		
Securities (Note 5)	2,793	8,414
Other assets (Note 11)	1,201	469
Assets from discontinued operations (Note 25)	3,994	8,883

	2010 (\$)	2009 (\$)
Statement of Liabilities		
Other liabilities (Note 15)	1,370	3,204
Liabilities from discontinued operations	1,370	3,204

	2010 (\$)	2009 (\$)
Statement of Income		
Interest income	57	134
Non-interest expense	6	25
Income before gain and income taxes	51	109
Gain on sale of retail credit card business	1,825	1,825
Income before income taxes	1,876	1,934
Provision for income taxes (Note 20)	210	219
Income from discontinued operations, net of tax (Note 25)	1,666	1,715

	2010 (\$)	2009 (\$)
Statement of Cash Flows		
Cash flows provided by (used in)		
Operating activities	(900)	1,545
Investing activities	5,621	(1,434)
Financing activities	(4,721)	(111)
Net increase in cash resources	-	-

40 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments are based on relevant market prices and information available at that time. Due to the use of subjective judgment and uncertainties, the aggregate fair value amounts shown should not be interpreted as necessarily being realizable in an immediate settlement of the instruments. The table outlines the fair values for financial instruments only and does not include assets or liabilities that are not considered financial instruments, such as premises and equipment, goodwill and intangible assets.

Cash resources, accounts receivable (included in other assets) and accounts payable and accrued expenses (included in other liabilities) are all short-term in nature and as such, their carrying value approximates fair value.

The fair value of securities is established using market prices when available. The fair value of retained interests in securitized assets classified as available-for-sale is calculated using discounted cash flows based on various assumptions.

The estimated value of loans reflects changes in general interest rates which have occurred since the loans were originated. Moreover, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair value of fixed interest rate loans is calculated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair value of floating interest rate loans is approximately equal to carrying value.

The carrying value of deposits with no stated maturity or loans and notes payable due on demand is assumed to approximate fair value. For the remainder of the deposits, fair value is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of subordinated debentures is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of derivative financial instruments is calculated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date.

Any changes in the fair values of financial instruments classified or designated as held-for-trading and available-for-sale securities are recorded in net income and OCI, respectively. The cumulative changes in the fair values of available-for-sale securities previously recorded in AOCI are reclassified to net income when they are derecognized or the decline in value is considered to be other than temporary. Available-for-sale securities measured at fair value or cost are assessed for impairment at each reporting date. As at December 31, 2010, the pre-tax and after-tax unrealized losses for available-for-sale securities measured at fair value amounted to \$3,033 (2009 - \$9,244) and \$2,842 (2009 - \$4,062) respectively. The Company does not consider the available-for-sale securities measured at fair value of \$842,901 (2009 - \$962,372) to be other than temporarily impaired as at December 31, 2010. As at December 31, 2010, the pre-tax and after-tax unrealized gains on the available-for-sale securities totaled \$7,923 (2009 - \$8,146) and \$7,427 (2009 - \$3,579), respectively. The net after-tax unrealized losses for the year are reflected in unrealized gains and losses on available-for-sale securities in OCI. Derivatives that are not designated in hedging relationships are classified as held-for-trading and changes in the fair values of such derivative instruments are recorded in net income.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2010 (\$)					
	Financial Instruments Required to be Classified as Held-for-Trading	Available-for-Sale Instruments Measured at Fair Value	Available-for-Sale Instruments Measured at Cost	Loans and Receivables and Other Liabilities	Total Carrying Value	Fair Value
Financial assets						
Securities	1,747	840,108	3,722	-	845,577	845,577
Loans	-	-	-	2,598,311	2,598,311	2,606,920
Derivative related amounts	35,113	-	-	-	35,113	35,113
Assets from discontinued operations	-	2,793	-	-	2,793	2,793
Financial liabilities						
Deposits	-	-	-	3,151,894	3,151,894	3,188,081
Loans and notes payable	-	-	-	48,462	48,462	48,454
Subordinated debentures	-	-	-	73,832	73,832	69,378
Derivative related amounts	40,262	-	-	-	40,262	40,262

	2009 (\$)					
	Financial Instruments Required to be Classified as Held-for-Trading	Available-for-Sale Instruments Measured at Fair Value	Available-for-Sale Instruments Measured at Cost	Loans and Receivables and Other Liabilities	Total Carrying Value	Fair Value
Financial assets						
Securities	1,652	953,958	3,770	-	959,380	959,380
Loans	-	-	-	2,613,807	2,613,807	2,626,380
Derivative related amounts	30,618	-	-	-	30,618	30,618
Assets from discontinued operations	-	8,414	-	-	8,414	8,414
Financial liabilities						
Deposits	-	-	-	3,097,872	3,097,872	3,150,387
Loans and notes payable	-	-	-	243,577	243,577	243,581
Subordinated debentures	-	-	-	73,732	73,732	69,194
Derivative related amounts	43,239	-	-	-	43,239	43,239

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Company's financial assets which are measured at fair value are categorized by fair value hierarchy levels as follows:

	2010 (\$)			
	Available-for-Sale Securities	Held-for-Trading Securities	Derivative Related Assets	Derivative Related Liabilities
Level 1	-	-	-	-
Level 2	841,525	1,747	35,113	40,262
Level 3	5,098	-	-	-
	846,623	1,747	35,113	40,262
Continuing operations	843,830	1,747	35,113	40,262
Discontinued operations	2,793	-	-	-

	2009 (\$)			
	Available-for-Sale Securities	Held-for-Trading Securities	Derivative Related Assets	Derivative Related Liabilities
Level 1	-	-	-	-
Level 2	959,538	1,652	30,618	43,239
Level 3	6,604	-	-	-
	966,142	1,652	30,618	43,239
Continuing operations	957,728	1,652	30,618	43,239
Discontinued operations	8,414	-	-	-

The beginning and ending balances for assets that are measured on the balance sheet at fair value based on a valuation technique for which the Company uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3) are as follows:

	2010 (\$)	2009 (\$)
	Available-for-Sale Securities	Available-for-Sale Securities
Level 3, beginning of year	6,604	6,287
Total gains or (losses)		
In net income	(2,672)	(1,605)
In other comprehensive income (loss)	(188)	36
Issues	2,233	1,886
Sales / settlements	(879)	-
Transfer out of Level 3	-	-
Level 3, end of year	5,098	6,604
Total gains or (losses) for the period included in net income for assets and liabilities held at the end of the reporting period	(906)	(1,605)

5. SECURITIES

The securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 76.47% (2009 - 75.64%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return.

Government securities are comprised of securities issued or guaranteed by Canadian federal, provincial and municipal governments. Corporate securities are comprised of commercial paper, medium term notes and co-operative equities.

Securities of \$285,066 (2009 - \$397,821) have been pledged as collateral or held in a segregated safekeeping account for various obligations of the Company. Of these securities, \$13,290 (2009 - \$144,300) are securities sold under repurchase agreements.

5. SECURITIES (continued)

The maturity dates and weighted average effective interest rates for the securities portfolio are as follows:

	2010 (\$)					2009 (\$)	
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Fixed Maturity	Total	Total
Available-for-Sale							
Government							
Federal							
Fair value (\$)	11,055	86,914	73,352	-	-	171,321	107,967
Amortized cost (\$)	11,061	86,885	73,217	-	-	171,163	108,397
Rate (%) ⁽¹⁾	0.94%	1.37%	1.82%	-	-	1.54%	1.41%
Provincial							
Fair value (\$)	-	54,164	250,621	27,397	-	332,182	265,061
Amortized cost (\$)	-	54,228	250,146	27,216	-	331,590	264,916
Rate (%) ⁽¹⁾	-	1.39%	1.72%	3.19%	-	1.79%	2.02%
Municipal							
Fair value (\$)	-	-	-	-	-	-	5,721
Amortized cost (\$)	-	-	-	-	-	-	5,481
Rate (%) ⁽¹⁾	-	-	-	-	-	-	4.20%
Corporate							
Chartered banks							
Fair value (\$)	-	22,550	31,490	4,332	-	58,372	248,824
Amortized cost (\$)	-	22,534	31,506	4,000	-	58,040	244,705
Rate (%) ⁽¹⁾	-	2.09%	2.21%	5.12%	-	2.38%	2.57%
Co-operatives							
Fair value (\$)	-	-	6,762	21,512	3,722	31,996	29,281
Amortized cost (\$)	-	-	6,600	21,512	3,722	31,834	29,288
Rate (%) ⁽¹⁾	-	-	4.96% ⁽¹⁾	1.79%	-	2.25%	2.25%
Other corporate							
Fair value (\$)	5,007	493	16,288	-	-	21,788	89,391
Amortized cost (\$)	5,000	487	15,946	-	-	21,433	89,436
Rate (%) ⁽¹⁾	4.38%	5.09%	3.03%	-	-	3.38%	3.17%
Mortgage-backed							
Fair value (\$)	9,501	-	75,348	102,747	-	187,596	123,313
Amortized cost (\$)	9,501	-	74,671	99,111	-	183,283	128,417
Rate (%) ⁽¹⁾	3.89%	-	4.12%	4.60%	-	4.37%	4.24%
Asset-backed							
Fair value (\$)	-	5,358	33,198	-	-	38,556	91,747
Amortized cost (\$)	-	5,320	34,258	-	-	39,578	91,763
Rate (%) ⁽¹⁾	-	6.05%	2.50%	-	-	2.99%	2.30%
Total fair value	25,563	169,479	487,059	155,988	3,722	841,811	961,305
Total amortized cost	25,562	169,454	486,344	151,839	3,722	836,921	962,403
Held-for-Trading							
Fair value (\$)	-	-	-	1,747	-	1,747	1,652
Total carrying value	25,563	169,479	487,059	157,735	3,722	843,558	962,957
Accrued interest						4,812	4,837
						848,370	967,794
Continuing operations						845,577	959,380
Discontinued operations ⁽²⁾ (Note 3)						2,793	8,414

⁽¹⁾The weighted average rate is based on the carrying value at the end of the year for the respective securities.

⁽²⁾Includes carrying value of \$2,793 (2009 - \$8,414) and accrued interest of \$nil (2009 - \$nil).

5. SECURITIES (continued)

Unrealized Gains and Losses on Available-for-Sale Securities

	2010 (\$)				2009 (\$)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Government	502,753	1,526	(776)	503,503	378,794	962	(1,007)	378,749
Corporate	111,307	1,058	(209)	112,156	363,429	5,520	(1,453)	367,496
Mortgage-backed	183,283	5,240	(927)	187,596	128,417	988	(6,092)	123,313
Asset-backed	39,578	99	(1,121)	38,556	91,763	676	(692)	91,747
	836,921	7,923	(3,033)	841,811	962,403	8,146	(9,244)	961,305
Continuing operations	834,128	7,923	(3,033)	839,018	953,989	8,146	(9,244)	952,891
Discontinued operations	2,793	-	-	2,793	8,414	-	-	8,414

Gains and Losses on Securities

	2010 (\$)	2009 (\$)
Realized gains on available-for-sale securities	9,148	9,571
Realized losses on available-for-sale securities	(3,449)	(3,880)
Realized gains on held-for-trading securities	5	10
Realized losses on held-for-trading securities	(134)	(109)
Unrealized gains (losses) on held-for-trading securities	233	(5)
Net impairment recovery (charges) related to assets managed on behalf of estates, trusts and agencies	794	(1,053)
Gain on securities	6,597	4,534

In August 2007, a market disruption event occurred in the Canadian financial sector. A large number of non-bank sponsored or third-party Asset Backed Commercial Paper (ABCP) conduits experienced a liquidity event or market disruption. Due to the lack of liquidity in the ABCP market, a group representing banks, assets providers and major investors reached the "Montreal Accord" on August 16, 2007, with respect to most of the conduits for ABCP.

In September 2007, the Pan-Canadian Investors Committee (the Committee) on non-bank-sponsored ABCP was formed. The Committee developed a restructuring plan (the Plan) for the frozen ABCP. The Plan proposed to replace the affected ABCP with new longer-term floating rate notes with maturities designed to more closely match the maturities of the underlying assets. The Plan also provided, in certain circumstances, for the pooling of certain assets into Master Asset Vehicles (MAV) as well as the establishment of new margin funding facilities to support any collateral calls that may occur in the future.

The ABCP investments subject to the Montreal Accord were restructured on January 19, 2009, and exchanged for new longer-term floating-rate MAV notes. These new MAV notes are more closely matched to the maturities of the underlying assets.

During the year the Company received \$3,162 (2009 - \$7,302) of principal and interest payments on the MAV notes held. The fair value at December 31, 2010, is \$1,747 (2009 - \$4,512).

The Company also manages MAV notes of various classes held with respect to assets managed on behalf of estates, trusts and agencies. During the year the Company received \$134 (2009 - \$154) of principal

5. SECURITIES (continued)

and interest payments on the MAV notes held. The fair value at December 31, 2010, is \$10,845 (2009 - \$10,227). A recovery on impairment charges of \$794 (2009 - \$1,424) was recorded during the year on these MAV notes.

For the purposes of valuation of the MAV notes, the Company uses a discounted cash flow model.

6. LOANS

	2010 (\$)					2009 (\$)
	Residential Mortgages	Commercial Mortgages	Commercial Loans	Credit Union Loans	Total	Total
Performing	1,720,728	450,816	389,369	1,000	2,561,913	2,576,294
Impaired	18,242	-	15,326	-	33,568	35,725
Specific allowance	(960)	-	(5,393)	-	(6,353)	(3,667)
Net impaired	17,282	-	9,933	-	27,215	32,058
Property held for resale	6,559	-	-	-	6,559	2,868
Specific allowance	-	-	-	-	-	-
Net property held for resale	6,559	-	-	-	6,559	2,868
	1,744,569	450,816	399,302	1,000	2,595,687	2,611,220
General allowance					(9,060)	(9,043)
Accrued interest					11,684	11,630
Total loans, net of allowance for credit losses					2,598,311	2,613,807

Approximately 77.1% (2009 – 80.2%) of the loan portfolio bears interest at fixed rates and the remainder bears interest at variable rates. Approximately 75.7% (2009 – 76.4%) of the total loan portfolio is subject to interest penalties if the borrower repays or resets the interest rate prior to maturity.

6. LOANS (continued)

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the loan portfolio are as follows:

	2010 (\$)					2009 (\$)
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Total
Residential mortgages						
Amortized cost (\$)	80,784	305,802	1,298,723	59,260	1,744,569	1,813,760
Rate (%)	4.77%	5.23%	4.38%	4.26%	4.54%	4.88%
Commercial mortgages						
Amortized cost (\$)	44,429	58,974	308,349	39,064	450,816	335,520
Rate (%)	4.88%	5.36%	5.58%	5.67%	5.50%	5.62%
Commercial loans						
Amortized cost (\$)	87,723	35,792	202,291	73,496	399,302	438,890
Rate (%)	3.95%	5.20%	5.64%	5.73%	5.25%	5.04%
Credit Union loans						
Amortized cost (\$)	-	1,000	-	-	1,000	23,050
Rate (%)	-	3.80%	-	-	3.80%	3.24%
Amortized cost	212,936	401,568	1,809,363	171,820	2,595,687	2,611,220

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (1) less than 90 days past due, or (2) fully secured and collection efforts are reasonably expected to result in repayment.

	2010 (\$)				2009 (\$)			
	1 – 29 Days	30 – 89 Days	90 Days and Greater	Total	1 – 29 Days	30 – 89 Days	90 Days and Greater	Total
Residential mortgages	30,485	9,825	6,032	46,342	41,582	22,670	26,824	91,076
Commercial mortgages and loans	495	518	-	1,013	793	411	265	1,469
Total	30,980	10,343	6,032	47,355	42,375	23,081	27,089	92,545

7. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the Company's general and specific allowances:

	2010 (\$)				
	Balance Beginning of Year	Write Offs	Recoveries	Provision for Credit Losses	Balance End of Year
Residential mortgages	1,839	(2,065)	1,468	1,179	2,421
Commercial mortgages	1,906	-	-	72	1,978
Commercial loans	8,965	(341)	572	1,818	11,014
Total allowance for credit losses	12,710	(2,406)	2,040	3,069	15,413
Specific allowances					
Residential mortgages	342	(2,065)	1,468	1,215	960
Commercial mortgages	-	-	-	-	-
Commercial loans	3,325	(341)	572	1,837	5,393
Total specific allowances	3,667	(2,406)	2,040	3,052	6,353
General allowances					
Residential mortgages	1,497	-	-	(36)	1,461
Commercial mortgages	1,906	-	-	72	1,978
Commercial loans	5,640	-	-	(19)	5,621
Total general allowances	9,043	-	-	17	9,060
Total allowance for credit losses	12,710	(2,406)	2,040	3,069	15,413
2009 (\$)					
Total allowance for credit losses	12,718	(1,216)	608	600	12,710

8. ASSET SECURITIZATION

During the year, the Company wound up its securitization portfolio of uninsured residential mortgages by exercising the early repurchase option available. This included the wind up of the retained interest and servicing liability in the uninsured residential mortgage securitization portfolio. At the time of windup, the Company purchased back uninsured residential mortgages of \$19,455 (2009 - \$nil). In the prior year, the outstanding principal mortgage balance was \$46,014.

The Company sells portfolios of insured residential mortgages to a qualifying special purpose entity under the Canada Mortgage Bond Program. At December 31, the outstanding principal mortgage balance was \$1,331,308 (2009 - \$1,071,845). The Company has accounted for each of these transactions as a sale as it is deemed to have surrendered control over such assets. The Company has retained the responsibility for servicing these mortgages. At December 31, the retained interest, including servicing asset, in the mortgage portfolio was \$44,222 (2009 - \$45,399) with an estimated fair value of \$47,729 (2009 - \$47,693). The Company does not expect to incur credit losses on insured residential mortgages.

The Company also sells Retirement Compensation Arrangement (RCA) loans to a qualifying special purpose entity. At December 31, the outstanding principal loan balance was \$219,974 (2009 - \$220,682). The Company has accounted for each of these transactions as a sale as it is deemed to have surrendered

8. ASSET SECURITIZATION (continued)

control over such assets. The Company has retained the responsibility for servicing these loans in return for a fee for service. The Company does not hold a retained interest in the loan portfolio and is not liable for credit losses on the portfolio.

The following table summarizes the Company's securitization activities for 2010 and 2009, including certain cash flows.

	2010 (\$)			
	Uninsured Residential Mortgage Loans	Insured Residential Mortgage Loans	RCA Loans	Total
Securitized and sold	-	458,767	-	458,767
Retained interest, allocated carrying value ⁽¹⁾	-	18,049	-	18,049
Retained interest, estimated fair value ⁽¹⁾	-	18,666	-	18,666
Pre-tax gain on sale	-	11,781	-	11,781
Pre-tax loss on repurchase option	(446)	-	-	(446)
Proceeds from new securitizations	-	457,144	-	457,144

⁽¹⁾Retained interest includes the servicing asset

	2009 (\$)			
	Uninsured Residential Mortgage Loans	Insured Residential Mortgage Loans	RCA Loans	Total
Securitized and sold	-	558,506	-	558,506
Retained interest, allocated carrying value ⁽¹⁾	-	28,876	-	28,876
Retained interest, estimated fair value ⁽¹⁾	-	30,373	-	30,373
Pre-tax gain on sale	-	22,784	-	22,784
Pre-tax loss on repurchase option	-	-	-	-
Proceeds from new securitizations	-	557,931	-	557,931

⁽¹⁾Retained interest includes the servicing asset

The following key assumptions are used to value the Company's retained interest:

	2010 (%)		2009 (%)	
	Uninsured Residential Mortgage Loans	Insured Residential Mortgage Loans	Uninsured Residential Mortgage Loans	Insured Residential Mortgage Loans
Expected weighted average life of pre-payable receivables (in years)	-	3.09	1.11	3.70
Yield	-	4.79	5.06	5.11
Payment rate	-	23.68	12.93	20.56
Discount rate	-	2.33	1.19	2.90
Cost of funds	-	2.96	1.15	3.15
Expected credit losses	-	0.01	0.01	0.01
Servicing rates	-	0.25	0.25	0.25

8. ASSET SECURITIZATION (continued)

The following table presents key economic assumptions and the sensitivity of the current fair value of the retained interest in the event of two adverse changes in each key assumption as at December 31. This sensitivity analysis is hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions. Generally, the changes in one factor may result in changes in another, which may magnify or counteract the sensitivity.

	2010 (\$)		2009 (\$)	
	Uninsured Residential Mortgage Loans	Insured Residential Mortgage Loans	Uninsured Residential Mortgage Loans	Insured Residential Mortgage Loans
Weighted average remaining service life (in years)	-	3.09	1.11	3.70
Yield				
Impact on fair value at 10% adverse change	-	-	-	-
Impact on fair value at 20% adverse change	-	-	-	-
Payment rate				
Impact on fair value at 10% adverse change	-	(303)	(12)	(552)
Impact on fair value at 20% adverse change	-	(638)	(23)	(1,130)
Discount rate				
Impact on fair value at 10% adverse change	-	(80)	(3)	(166)
Impact on fair value at 20% adverse change	-	(166)	(6)	(332)
Cost of funds				
Impact on fair value at 10% adverse change	-	(180)	(43)	(212)
Impact on fair value at 20% adverse change	-	(421)	(87)	(467)
Expected credit losses				
Impact on fair value at 10% adverse change	-	0	0	0
Impact on fair value at 20% adverse change	-	0	0	0

The Company provides securitization co-ordination services to credit unions across Canada on a fee for service basis.

9. PREMISES AND EQUIPMENT

	2010 (\$)			2009 (\$)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	517	-	517	517	-	517
Building and improvements	8,495	6,621	1,874	8,190	6,254	1,936
Equipment	4,508	3,727	781	4,495	3,502	993
	13,520	10,348	3,172	13,202	9,756	3,446

Current year amortization expense of \$786 (2009 - \$960) is included in non-interest expense.

10. GOODWILL

The Company has completed the annual test for goodwill impairment and has determined that the goodwill is not impaired.

The carrying amount of goodwill of \$19,248 (2009 - \$19,248) is related to Financial Intermediation.

11. OTHER ASSETS

	2010 (\$)		2009 (\$)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Accounts receivable and other accruals	2,517	1,042	1,645	100
Prepaid and deferred costs	388	-	421	-
Derivative related assets (Note 23)	35,113	-	30,618	-
Other intangibles (Note 12)	2,857	-	1,566	-
Other investments	73	-	282	-
Servicing asset	39,127	-	41,610	-
Future income tax assets (Note 20)	2,259	159	41	369
	82,334	1,201	76,183	469

12. OTHER INTANGIBLES

	2010 (\$)			2009 (\$)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software	4,518	1,661	2,857	2,636	1,070	1,566
	4,518	1,661	2,857	2,636	1,070	1,566

Current year amortization expense of \$591 (2009 - \$418) is included in non-interest expense. Software with a carrying value of \$254 (2009 - \$258) is under development and therefore has not been amortized during the year.

13. DEPOSITS

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the Company's deposits are as follows:

	2010 (\$)					Total	2009 (\$) Total
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years		
Deposits							
Amortized cost (\$)	689,753	570,150	804,990	1,054,934	1,894	3,121,721	3,065,171
Rate (%)	0.78%	1.84%	2.40%	3.41%	4.61%	2.28%	2.54%
Accrued interest						30,173	32,701
						3,151,894	3,097,872

Deposits bear interest at rates determined by market conditions.

14. LOANS AND NOTES PAYABLE

	2010 (\$)	2009 (\$)
Credit union funded administered loans	15	674
Lines of credit	-	41,857
Notes payable	34,979	56,487
Obligations related to assets sold under repurchase agreements	13,468	144,559
	48,462	243,577

The Company participates in administered loan programs in which credit unions provide funding for loans made by the Company to credit union members. These loans to credit union members are recorded as assets. The corresponding funding by the credit union is recorded as a liability as the credit union has the right to require the Company to provide the direct funding upon request. The Company records the revenue from the credit union member as loans interest income. Interest paid to the credit union is recorded as loans and notes interest expense. Loans to a maximum of \$3,050 (2009 - \$5,350) are authorized under this program. The outstanding balances of \$15 (2009 - \$674) had a weighted average effective interest rate of 1.75% (2009 - 0.88%).

The Company maintains a line of credit facility with SaskCentral of \$50,000 (2009 - \$50,000). The line of credit bears interest at prime less 0.50% (2009 - prime less 0.50%) with an effective interest rate at December 31 of 2.50% (2009 - 1.75%) and an outstanding balance of \$nil (2009 - \$41,857). The line of credit is partially secured by a deposit of \$20,000 (2009 - \$20,000) held by SaskCentral.

The Company also maintains line of credit facilities with another financial institution of \$250,000 (2009 - \$250,000). The lines of credit bear interest at the bankers acceptance rate plus 1.00% (2009 - bankers acceptance rate plus 1.00%) and are secured by residential mortgages.

The Company is authorized to issue a maximum of \$300,000 (2009 - \$300,000) under a commercial paper program. The Company established a new commercial paper liquidity support arrangement, which includes: 1) the Company will maintain a segregated account with its custodian containing Federal and Provincial Government guaranteed securities with a market value of \$50,000; 2) in the event that the

14. LOANS AND NOTES PAYABLE (continued)

issuance of commercial paper exceeds \$100,000, the excess will be matched at a 1.1:1 market value of additional Federal and Provincial Government guaranteed securities; and 3) the Company will designate \$50,000 of its line of credit facility to be used solely for liquidity support of the commercial paper program. Since the establishment of the arrangement, the Company has been in compliance with all requirements. In the prior year, the Company had pledged securities with a market value of \$210,000 to support commercial paper issuance. Notes payable consist of commercial paper maturing within 90 days and had a weighted average effective interest rate of 1.13% (2009 – 0.47%) at December 31.

By policy, the Company may utilize additional credit facilities to a maximum of \$500,000 (2009 – \$500,000) related to securities repurchase agreements, subject to availability of qualified securities, for which outstanding balances of \$13,468 (2009 - \$144,559) are secured by pledged securities. These repurchase agreements mature within 1 month (2009 – 1 month) and had a weighted average effective interest rate of 0.45% (2009 – 0.42%).

15. OTHER LIABILITIES

	2010 (\$)		2009 (\$)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Accounts payable and accrued expenses	29,214	1	22,788	10
Derivative related liabilities (Note 23)	40,262	-	43,239	-
Deferred revenue	242	1,369	282	3,194
Servicing liability	-	-	132	-
Future income tax liabilities (Note 20)	3,320	-	4,516	-
	73,038	1,370	70,957	3,204

16. SUBORDINATED DEBENTURES

The debentures are unsecured obligations and are subordinate in right of payment to the claims of depositors and certain other creditors. All cancellations, redemptions and exchanges of subordinated debentures are subject to the consent and approval of OSFI.

	2010 (\$)	2009 (\$)
Series One	13,350	13,350
Series A Reset	15,000	15,000
Issuance costs	(161)	(244)
Premium on issuance	6	8
Series A Reset	14,845	14,764
Variable Rate – Issue 2009	20,000	20,000
Variable Rate – Issue 2008	25,000	25,000
Issuance costs	(23)	(30)
Variable Rate	44,977	44,970
Accrued interest	660	648
	73,832	73,732

16. SUBORDINATED DEBENTURES (continued)

The Series One non-convertible subordinated debentures, issued August 15, 2006, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 10 years is payable at a fixed rate set on August 15, 2006, equal to the current Government of Canada ten-year bond rate as announced by the Bank of Canada, plus 1.50% (5.82% at December 31, 2010; 5.82% at December 31, 2009). Interest for the final 5 years is payable at a fixed rate set on August 15, 2016, equal to the Government of Canada five-year bond rate as announced by the Bank of Canada, plus 1.75%. The maturity date of the debentures is August 15, 2021. The debentures are redeemable, at the option of the Company and subject to the approval of OSFI, not earlier than August 15, 2016. These debentures qualify as tier 2B capital.

Series A Reset subordinated debentures in two tranches totaling \$15,000 were issued on June 26, 2007, and July 11, 2007, and are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable semi-annually at a fixed rate equal to the current Government of Canada five-year bond rate as announced by the Bank of Canada, plus 1.55% (6.21% at December 31, 2010; 6.21% at December 31, 2009). Interest for the final 5 years is set equal to the 90-day bankers acceptance rate plus 2.05%, payable quarterly. The maturity date of the debentures is September 26, 2017. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

Variable Rate subordinated debentures, issued April 29, 2009, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable quarterly at an adjusted floating rate equal to the three month Canadian Deposit Offering Rate (CDOR) plus 5.13% (6.43% at December 31, 2010; 5.56% at December 31, 2009). Interest for the final 5 years is a quarterly adjusted floating rate equal to the three month CDOR plus 5.63%, payable quarterly. The maturity date of the debentures is April 29, 2019. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

Variable Rate subordinated debentures, issued July 30, 2008, are unsecured and subordinated to deposits and other liabilities of the Company. Interest for the first 5 years is payable quarterly at an adjusted floating rate equal to the three month CDOR plus 2.00% (3.30% at December 31, 2010; 2.44% at December 31, 2009). Interest for the final 5 years is a quarterly adjusted floating rate equal to the three month CDOR plus 2.50%, payable quarterly. The maturity date of the debentures is September 26, 2018. The debentures are redeemable at the option of the Company and subject to the approval of OSFI. These debentures qualify as tier 2B capital.

17. SHARE CAPITAL

The Company is authorized to issue an unlimited number of membership shares, an unlimited number of Class A shares, 399,054 Class B shares and 2,000 Class C shares.

Membership shares may only be issued at such time and to such persons as determined by a resolution of the Board of Directors (the Board). Membership shares are issued and redeemed at Ten Dollars (\$10.00) per share and can only be transferred or redeemed subject to approval by the Board. Voting privileges are restricted to membership shares based on one vote per member, regardless of the number of membership shares held by a member.

Class A – Series 1 shares are entitled to receive dividends as declared by the Board and may only be issued to the holders of membership shares. Class A – Series 2 shares have the same entitlements as Class A – Series 1 shares except they may only be issued to SaskCentral or an affiliate of SaskCentral.

Class B shares are entitled to an annual, non-cumulative dividend of \$0.78 per share (2009 - \$0.78), subject to the rights of the Class C shares.

Class C shares are issued exclusively to SaskCentral or Alberta Central to provide capital for the Card Operations. Distribution of the earnings of the Card Operations is in accordance with the related Class C share agreements. These agreements result in 95% of the Card Operations earnings before October 1, 2007, and 100% of the subsequent Card Operations earnings, and 100% of the gain on any sale of the Card Operations being distributed by way of declaration of dividends to the Class C shareholders. Retained earnings of \$2,596 (2009 - \$5,652) are allocated to the Card Operations and are subject to distribution to the Class C shareholders based on the Class C share agreements. The issued Class C shares will remain outstanding until the expiration of the restriction period of the NCA (Note 3). Upon the expiration, the Class C shares can be redeemed for the book value which is defined as the stated value of the Class C shares plus any remaining retained earnings allocated to the Class C shares.

The following table summarizes the shares issued and outstanding at December 31:

	2010		2009	
	Number of Shares Issued	\$	Number of Shares Issued	\$
Membership Shares	3,398	34	3,381	34
Class A – Series 1	3,400,582	34,365	3,400,582	34,365
Class A – Series 2	6,186,170	98,855	6,186,170	98,855
Class B	399,054	3,990	399,054	3,990
Class C	2,000	-	2,000	-
		137,244		137,244

The Company issued 17 (2009 – nil) membership shares during the year.

18. PENSION BENEFITS

The Company provides pension benefits to qualified employees. Pension benefits of \$1,315 (2009 - \$1,295) were paid to defined contribution and supplementary employee retirement plans. These costs are included in salaries and employee benefits. As a defined contribution pension plan, the Company has no future liability or obligation for future contributions to fund benefits to plan members.

19. GENERAL BUSINESS EXPENSE

A charge for settlement of two legal actions in the Province of Quebec, both of which relate to the same issues, is included in the current year general business expense in Concentra Trust, a wholly owned subsidiary of the Company. The parties involved have agreed, in principle, to settle the litigation, with final court approval expected to occur in the first few months of 2011.

20. PROVISION FOR INCOME TAXES

Income taxes are included in the consolidated statement of income as follows:

	2010 (\$)	2009 (\$)
Continuing operations		
Current income tax expense	5,933	593
Future income tax (recovery) expense	(3,409)	5,904
	2,524	6,497
Income from discontinued operations, net of tax (Note 3)		
Current income tax expense	-	9
Future income tax expense	210	210
	210	219
	2,734	6,716

Income taxes are included in the consolidated statement of comprehensive income as follows:

	2010 (\$)	2009 (\$)
Net unrealized gains (losses) on available-for-sale securities		
Current income tax expense	1,820	3,195
Future income tax (recovery) expense	(20)	5
	1,800	3,200
Reclassification of (gains) losses on available-for-sale securities to income		
Current income tax recovery	(878)	(876)
	922	2,324

Income taxes are included in the consolidated statements of retained earnings and accumulated other comprehensive income (loss) as follows:

	2010 (\$)	2009 (\$)
Retained earnings		
Reduction in income taxes due to payment of dividends		
Current income tax recovery	(1,943)	(48)
	(1,943)	(48)

Total income tax reported in the consolidated financial statements:

	2010 (\$)	2009 (\$)
	1,713	8,992

Dividends, which are reflected in retained earnings, are normally deductible in determining current income subject to tax. The reduction in income tax resulting from the payment of dividends deductible in determining current income subject to tax is reflected in retained earnings.

20. PROVISION FOR INCOME TAXES (continued)

Reconciliation of the provision for income taxes from continuing operations:

	2010 (\$)	2009 (\$)
Combined federal and provincial income tax rate applied to income from operations (2010 - 11.6%; 2009 - 16.0%)	2,905	5,689
Provision for income taxes adjusted for the effect of:		
Non-deductible expenses	15	(25)
Future income tax expense resulting from tax rate changes	63	12
Other	(459)	821
	2,524	6,497

The components of future income taxes are as follows:

	2010 (\$)		2009 (\$)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Future income tax assets				
Unamortized transition loss and retained interest	71	-	165	-
Accrued expenses	2,246	-	-	-
Deferred revenue	-	152	-	354
Other	79	7	134	15
	2,396	159	299	369
Future income tax liabilities				
Securities	(109)	-	(49)	-
Loans	(3,293)	-	(4,563)	-
Other	(55)	-	(162)	-
	(3,457)	-	(4,774)	-
Net future income taxes	(1,061)	159	(4,475)	369

Net future income taxes are recorded in:

	2010 (\$)		2009 (\$)	
	Continuing Operations	Discontinued Operations (Note 3)	Continuing Operations	Discontinued Operations (Note 3)
Future income tax assets				
Other assets (Note 11)	2,259	159	41	369
	2,259	159	41	369
Future income tax liabilities				
Other liabilities (Note 15)	(3,320)	-	(4,516)	-
	(3,320)	-	(4,516)	-
Net future income taxes	(1,061)	159	(4,475)	369

21. INVESTMENT IN CAI ACQUIRING

The Company purchased 100% of the common shares of CAI Acquiring on May 10, 2002. CAI Acquiring was incorporated to acquire and service the credit card merchant processing business through its 48% partnership interest in UNPS. This partnership interest was sold effective January 1, 2008, as disclosed in Note 3. The shares held in CAI Acquiring were subsequently sold to the Class C shareholders effective January 1, 2009, at the net book value of the investment in CAI Acquiring, which approximated the fair value at the time of the sale.

Due to the provisions of the Class C Shares as described in Note 17, it had been determined that CAI Acquiring was a variable interest entity of which the Company was not the primary beneficiary as the majority of the variability in the earnings were absorbed by the holders of the Class C shares. As a result of the provisions of the Class C shares, the equity at risk of CAI Acquiring lacked the characteristics of a controlling financial interest.

The Company's investment in CAI Acquiring was being accounted for in accordance with the equity method of accounting as the Company did have significant influence through its equity investment. Distributions of Card Operations earnings derived from the Company's investment in CAI Acquiring were in accordance with the related Class C share agreements. These agreements result in 95% of the CAI Acquiring earnings before October 1, 2007, and 100% of the subsequent CAI Acquiring earnings, and 100% of the gain on any sale of the CAI Acquiring operations being distributed by way of declaration of dividends to the Class C shareholders.

The following table summarizes the carrying amount of the Company's investment in CAI Acquiring:

	2010 (\$)	2009 (\$)
Equity, beginning of year	-	43
Sale of investment	-	(43)
Equity, end of year	-	-

22. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount which is the consideration established and agreed to by the parties. Some of these transactions and balances are recorded in the discontinued operations. The following table summarizes the balances outstanding at year end and transactions during the year not noted elsewhere in the consolidated financial statements.

SaskCentral provides banking and credit services for the Company. The Company provides consultative and administrative services to SaskCentral. It has been determined through the attributes of the Class C shares (Note 17) that SaskCentral is the primary beneficiary of the positive and negative variability of the Company's earnings.

CU Electronic Transaction Services (CUETS) is a joint venture owned equally by SaskCentral and Alberta Central.

Celero Solutions provides information technology services and support under the terms of a support services agreement.

22. RELATED PARTY TRANSACTIONS (continued)

	2010 (\$)	2009 (\$)
SaskCentral		
Dividends paid to	8,441	-
Cash deposited with	7,854	-
Due from included in other assets	89	42
Securities invested with	20,000	20,000
Interest earned on deposits and securities	131	173
Interest receivable on deposits and securities	131	173
Interest paid to	104	174
Interest payable to	9	14
Fee for service received from	644	714
Supplies purchased from	-	41
Non-interest expenses paid to	1,090	1,105
CUETS		
Deposits payable to	1,503	1,708
Interest paid to	9	9
Celero Solutions		
Loan receivable from	1,705	1,705
Investment in	73	283
Due to included in other liabilities	838	538
Fee for service received from	112	90
Capital assets purchased from	841	521
Fee for service paid to	5,034	4,996
CAI Acquiring		
Deposits payable to	44	43
Interest paid to	-	1

23. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of the Company's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and are a common measure of business volume.

Swaps are contractual agreements to exchange a series of cash flows based on agreed upon rates to a notional amount. Interest rate swaps are used to manage exposure to interest rate risk by modifying the repricing or interest rate characteristics of assets and liabilities. Exposure is managed through the exchange of fixed and floating interest rate payments based on notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell financial instruments at a fixed price at a fixed future date or within a fixed future period. For options purchased, a premium is paid for the right to exercise the option.

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Foreign exchange forward contracts are contractual obligations to buy or sell one currency against another, for settlement on the day the contract expires. A forward contract manages the risk of fluctuating exchange rates by locking in a current price for a transaction that will take place in the future. Exposure is managed through entering into forward contracts.

The derivatives currently held or issued are for non-trading purposes. These derivatives are used in managing the Company's asset/liability activities and include investing and hedging activities.

Notional Amounts and Term to Maturity

	2010 (\$)						2009 (\$)	
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Trading	Other than Trading	Total
Asset/Liability Management								
Interest rate contracts								
Interest rate swaps	132,413	88,702	1,896,291	77,918	2,195,324	-	2,195,324	2,094,168
Forward rate agreement	-	-	23,311	-	23,311	-	23,311	-
Options purchased	-	-	300	-	300	-	300	1,550
Foreign exchange contracts	-	-	9,989	-	9,989	-	9,989	-
	132,413	88,702	1,929,891	77,918	2,228,924	-	2,228,924	2,095,718
As intermediary								
Interest rate contracts								
Interest rate swaps	260,000	40,000	463,400	4,243	767,643	-	767,643	873,919
Forward rate agreement	-	-	-	-	-	-	-	3,200
Foreign exchange contracts	25,407	12,872	-	-	38,279	-	38,279	74,068
	285,407	52,872	463,400	4,243	805,922	-	805,922	951,187

Fair Value of Derivative Financial Instruments

	2010 (\$)		2009 (\$)	
	Positive	Negative	Positive	Negative
Asset/Liability Management				
Interest rate contracts				
Interest rate swaps	25,263	30,776	19,819	32,903
Forward Rate Agreement	221	18	-	-
Options purchased	6	-	204	-
Foreign exchange contracts	80	-	-	-
	25,570	30,794	20,023	32,903
As intermediary				
Interest rate contracts				
Interest rate swaps	9,543	9,468	10,429	10,203
Forward rate agreement	-	-	166	133
Foreign exchange contracts	-	-	-	-
	9,543	9,468	10,595	10,336
Derivative related assets/liabilities (Notes 11, 15)	35,113	40,262	30,618	43,239

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Company is exposed to credit related losses in the event of non-performance by the counterparties to derivative contracts. The Company's credit exposure on the interest rate contracts is limited to the positive replacement cost (fair value) of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. The Company mitigates exposures by limiting the counterparties to interest rate contracts to credit worthy Canadian financial institutions. In determining the credit quality of derivative instruments both the Company's own credit risk and the risk of the counterparty are considered elements of the credit quality.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

The following table provides information in relation to the Company's credit risk exposure for derivative financial transactions. Positive replacement cost is derived from the fair value of derivative financial instruments (Note 4). Potential credit risk exposure and risk-weighted equivalents are calculated in accordance with OSFI capital adequacy guidelines.

	2010 (\$)				2009 (\$)
	Interest Rate Contracts	Options	Foreign Exchange Contracts	Total	Total
Notional amounts	2,986,278	300	48,268	3,034,846	3,046,905
Positive replacement cost	35,027	6	80	35,113	30,618
Potential credit risk exposure	13,147	24	882	14,053	15,324
Credit equivalent amount	48,174	30	962	49,166	45,942
Risk-weighted equivalent	9,635	6	192	9,833	9,189

Unrealized and Realized Gains and Losses on Derivatives

	2010 (\$)	2009 (\$)
Realized (losses) gains on derivatives	(15,659)	(29,367)
Unrealized gains (losses) on derivatives	4,317	15,704
Unrealized and realized gains (losses) on derivatives	(11,342)	(13,663)

24. CONTRACTUAL REPRICING SCHEDULE

The Company's exposure to interest rate risk can be measured by the mismatch, or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The table below shows the Company's gap position as at December 31.

62 24. CONTRACTUAL REPRICING SCHEDULE (continued)

	2010 (\$)						
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total
Assets							
Cash resources	20,407	-	-	-	-	-	20,407
Securities	-	159,446	166,057	381,665	129,875	8,534	845,577
Effective interest rate (%)	-	2.98%	2.54%	1.64%	4.49%	-	-
Loans	593,639	106,936	363,735	1,417,250	99,856	16,895	2,598,311
Effective interest rate (%)	3.38%	5.26%	5.37%	5.20%	5.62%	-	-
Other assets	-	-	-	-	-	104,754	104,754
Assets from discontinued operations	-	2,793	-	-	-	1,201	3,994
	614,046	269,175	529,792	1,798,915	229,731	131,384	3,573,043
Liabilities							
Deposits	689,753	570,150	804,990	1,054,934	1,894	30,173	3,151,894
Effective interest rate (%)	0.78%	1.84%	2.40%	3.41%	4.61%	-	-
Loans and notes payable	-	48,462	-	-	-	-	48,462
Effective interest rate (%)	-	0.94%	-	-	-	-	-
Subordinated debentures	-	45,000	-	15,000	13,350	482	73,832
Effective interest rate (%)	-	4.69%	-	6.21%	5.82%	-	-
Other liabilities	-	-	-	-	-	73,038	73,038
Liabilities from discontinued operations	-	-	-	-	-	1,370	1,370
Members' equity	-	-	-	-	-	224,447	224,447
	689,753	663,612	804,990	1,069,934	15,244	329,510	3,573,043
On-balance sheet gap	(75,707)	(394,437)	(275,198)	728,981	214,487	(198,126)	-
Off-balance sheet financial instruments							
Pay side instruments	-	(712,297)	(108,702)	(2,085,239)	(80,040)	-	(2,986,278)
Effective interest rate (%)	-	1.97%	4.56%	3.16%	3.70%	-	-
Receive side instruments	-	2,666,395	20,000	297,762	2,121	-	2,986,278
Effective interest rate (%)	-	1.28%	4.87%	2.82%	2.89%	-	-
Off-balance sheet gap	-	1,954,098	(88,702)	(1,787,477)	(77,919)	-	-
Total gap	(75,707)	1,559,661	(363,900)	(1,058,496)	136,568	(198,126)	-
2009 (\$)							
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total
Continuing Operations							
On-balance sheet gap	42,154	(353,130)	(625,249)	862,322	252,575	(184,351)	(5,679)
Off-balance sheet gap	-	1,792,002	(109,800)	(1,621,034)	(61,168)	-	-
Total gap	42,154	1,438,872	(735,049)	(758,712)	191,407	(184,351)	(5,679)
Discontinued Operations							
On-balance sheet gap	-	8,414	-	-	-	(2,735)	5,679
Off-balance sheet gap	-	-	-	-	-	-	-
Total gap	-	8,414	-	-	-	(2,735)	5,679

24. CONTRACTUAL REPRICING SCHEDULE (continued)

The Company's interest rate sensitivity to a 100 basis point (bp) fluctuation in interest rates, as measured based on the current position at December 31, 2010, would be as outlined in the following table over the next 12 months if no remedial action was taken by the Company.

	2010 (\$)		2009 (\$)	
	Net Income	Other Comprehensive Income	Net Income	Other Comprehensive Income
Impact of:				
100 bp increase in rates	20,646	(9,547)	29,304	(12,994)
100 bp decrease in rates ⁽¹⁾	(21,952)	9,427	(7,346)	3,246

⁽¹⁾For 2010, the rates have been adjusted to zero where effective rates at December 31, 2010 were less than 100 bp. For 2009, the sensitivity analysis utilized 25 bp for the decrease as this was the current Bank of Canada rate and this rate would not decrease below zero.

25. SEGMENTED INFORMATION

The Company operates three main operating segments and each segment is managed separately as individual business units.

Financial Intermediation includes residential mortgage and corporate lending activities, personal and corporate deposit products, securities and treasury services as well as commercial banking and leasing activities.

Trust Operations consist of both personal and corporate trust products and services.

Card Operations consist of the remaining assets related to the discontinued credit card lending, merchant processing and acquiring operations and other card related products and services. These operations will be wound up when the NCA restriction period ends in 2011 as described in note 3.

Inter-segment transactions take place at terms which approximate fair values. The following highlights key financial information for the operations of these segments.

25. SEGMENTED INFORMATION (continued)

	2010 (\$)				
	Financial Intermediation	Trust Operations	Card Operations ⁽¹⁾	Inter Segment Eliminations	Total
Interest income	146,309	50	-	(107)	146,252
Interest expense	85,822	-	-	(72)	85,750
Net interest income	60,487	50	-	(35)	60,502
Provision for credit losses	3,069	-	-	-	3,069
Net interest margin	57,418	50	-	(35)	57,433
Non-interest income	18,274	6,562	-	(1,503)	23,333
Non-interest expense	44,399	12,889	-	(1,538)	55,750
Income (loss) from continuing operations before income taxes	31,293	(6,277)	-	-	25,016
Provision (recovery) for income taxes	4,367	(1,843)	-	-	2,524
Net income (loss) from continuing operations	26,926	(4,434)	-	-	22,492
Income from discontinued operations, net of tax	-	-	1,666	-	1,666
Net income (loss)	26,926	(4,434)	1,666	-	24,158
Total assets	3,576,236	17,144	3,994	(24,331)	3,573,043

⁽¹⁾Discontinued operations (Note 3)

	2009 (\$)				
	Financial Intermediation	Trust Operations	Card Operations ⁽¹⁾	Inter Segment Eliminations	Total
Interest income	168,471	257	-	(381)	168,347
Interest expense	113,643	-	-	(291)	113,352
Net interest income	54,828	257	-	(90)	54,995
Provision for credit losses	600	-	-	-	600
Net interest margin	54,228	257	-	(90)	54,395
Non-interest income	25,272	6,475	-	(1,847)	29,900
Non-interest expense	45,362	5,386	-	(1,937)	48,811
Income from continuing operations before income taxes	34,138	1,346	-	-	35,484
Provision for income taxes	6,116	381	-	-	6,497
Net income from continuing operations	28,022	965	-	-	28,987
Income from discontinued operations, net of tax	-	-	1,715	-	1,715
Net income	28,022	965	1,715	-	30,702
Total assets	3,702,400	13,949	8,883	(29,987)	3,695,245

⁽¹⁾Discontinued operations (Note 3)

26. COMMITMENTS AND GUARANTEES

Lines of credit and loan commitments and letters of credit represent a maximum credit exposure to the Company. Many of these contracts will expire without being drawn upon and thereby reduces the Company's credit risk from the maximum commitment. The Company earns minimal fees on commitments. The Company has not issued any financial guarantee contracts.

	2010 (\$)						2009 (\$)
	On Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total	Total
Lines of credit and loan commitments	128,493	45,466	127,776	12,543	4,172	318,450	337,932
Letters of credit	-	3,588	5,645	-	-	9,233	8,658
	128,493	49,054	133,421	12,543	4,172	327,683	346,590

The Company is responsible for its proportionate share of any operating and investment losses incurred by Celero Solutions.

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

As a financial institution, the Company is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of these risks and how the exposure is managed.

Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans, and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

Objectives, Policies, and Methodologies

The Company manages credit risk by:

- Restricting the concentration of credit by issuer, issuer group, industry, and geographic region
- Aggregating credit exposures (including derivatives) to connected counterparties
- Determining appropriate levels of credit concentration commensurate with the ability to absorb credit losses while ensuring business continuity
- Restricting investments in commercial debt securities not rated by an approved rating agency
- Segregating business generation activities from credit risk management oversight
- Employing prudent credit granting criteria
- Using asset sales to manage credit exposure
- Managing monitored and non-productive assets effectively
- Monitoring the quality of the credit portfolio ensuring conservative valuation and timely recognition of losses through specific loss allowances and write downs
- Establishing general loss allowance levels based upon industry best practice methodology
- Undertaking stress testing

The Board is responsible for approving the credit risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Further operating credit risk policies are outlined in the *Balance Sheet Operating Policy* which is within the authority of the President and Chief Executive Officer. Compliance to these policies is monitored on a monthly basis.

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Company has a credit risk management function which is segregated from business generation activities. Credit risk management is responsible for delegating credit approval limits to business units and approving loan, lease, and mortgage applications in excess of the credit authority delegated. In addition, credit risk management undertakes an overall systematic review of the credit adjudication process on an annual basis and the results of the review are reported to the Board.

The Credit Committee, established by the Board and comprised of members of executive management, has the authority to approve large loans, leases, and mortgages upon the recommendation of credit risk management. The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set credit risk strategies for the securities portfolio within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*.

The following reports, related to the management of credit risk, are provided to the Board on a quarterly basis:

- Large Lending Credits Report
- Monitored and Non-productive Assets Report
- Chief Risk Officer's Report

The credit risk objectives, policies, and methodologies have not changed materially from December 31, 2009.

Risk Measurement

In measuring credit risk under Basel II, the standardized approach is used. Under this approach, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposures. In measuring credit risk for Internal Capital Adequacy Assessment Process (ICAAP) purposes, internal models are used to quantify capital required to cover credit risk exposures. In addition, internal capital is set aside for stress testing credit risk exposures under extreme but plausible conditions.

The Company assumes credit risk in both the securities and loan portfolios. In the securities portfolio the Company supplements internal credit analysis with industry recognized rating agency data (DBRS, Standard and Poor's, and Moody's). In the loans portfolio the primary reliance is on internal risk ratings and a comprehensive review of the credit worthiness of the borrower. The Company does not transact in credit derivatives.

The overall credit risk position is monitored for policy purposes in reference to an internally generated composite weighted average risk rating calculation (weighted average risk rating of the securities and loan portfolio calculated based upon internal risk ratings). As at December 31, 2010, and December 31, 2009, the Company was well within the risk tolerance for this measure as set out by the Board in the *Balance Sheet Policy*.

Credit Quality Performance

Refer to Note 5 for information on the credit quality performance of the securities portfolio and Note 6 for information on the credit quality performance of the loan portfolio.

Credit risk concentrations indicate the relative sensitivity of performance to developments affecting a particular industry or geographic region. The following tables summarize the authorized credit exposures associated with on- and off-balance sheet financial instruments.

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk exposure by industry

	2010 (\$)			2009 (\$)
	Outstanding	Undrawn Commitments	Total	Total
Accommodation and food services	100,682	3,091	103,773	109,543
Administration and support, waste management and remediation services	15,942	-	15,942	6,036
Agriculture, forestry, fishing and hunting	6,424	2,560	8,984	10,125
Arts, entertainment and recreation	30,740	10	30,750	33,544
Automobile financing	826	-	826	1,520
Banking	58,763	-	58,763	210,041
Construction	99,009	65,386	164,395	122,016
Credit card issuing and financing	5,116	-	5,116	19,796
Credit union	2,703	66,603	69,306	105,307
Education services	2,047	27,700	29,747	30,345
Health care and social assistance	60,452	18,085	78,537	64,160
Information	1,754	-	1,754	24,513
Insurance carriers and related activities	5,218	-	5,218	20,862
Manufacturing	47,820	16,607	64,427	78,819
Mining and oil and gas extraction	29,656	2,273	31,929	64,662
Other	6,878	-	6,878	17,583
Other depository	3,214	-	3,214	35,185
Other - diversified holdings	3,410	-	3,410	64,741
Other non-depository	25,990	-	25,990	25,707
Other services	3,853	-	3,853	4,130
Professional, scientific and technical services	879	-	879	1,732
Public administration	503,546	36,615	540,161	400,944
Real estate	528,268	1,435	529,703	340,923
Rental and leasing services	8,568	1,855	10,423	16,629
Residential mortgages - conventional	790,828	11,543	802,371	971,604
Residential mortgages - insured	1,009,621	42,739	1,052,360	999,273
Retail trade	22,498	522	23,020	30,517
Securities, commodity contracts and other financial institutions	10,245	5,006	15,251	23,483
Transportation and warehousing	25,139	-	25,139	28,203
Utilities	3,640	50	3,690	4,105
Wholesale trade	35,110	25,603	60,713	103,624
Total Exposure	3,448,839	327,683	3,776,522	3,969,672

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk exposure by geographic region (loans)

	2010 (\$)					
	Atlantic	Quebec	Ontario	Prairies and Territories	British Columbia	Total
Outstanding	147,046	20,680	899,333	1,083,765	458,473	2,609,297
Undrawn Commitments	10,387	-	20,648	272,059	24,589	327,683
Total Exposure	157,433	20,680	919,981	1,355,824	483,062	2,936,980

	2009 (\$)					
	Atlantic	Quebec	Ontario	Prairies and Territories	British Columbia	Total
Outstanding	148,362	20,414	900,026	994,367	461,363	2,524,532
Undrawn Commitments	12,080	-	50,006	268,958	24,753	355,797
Total Exposure	160,442	20,414	950,032	1,263,325	486,116	2,880,329

Market Risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk primarily results from timing differences in the re-pricing of assets and liabilities, both on- and off-balance sheet, as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability
- Foreign exchange risk which results from movements in foreign exchange rates

Objectives, Policies, and Methodologies

The Company manages market risk by:

- Acquiring assets for asset/liability management purposes which are marketable with a minimal risk of price fluctuation
- Using off-balance sheet strategies
- Establishing market risk levels
- Monitoring exposure and simulating the impact of interest rate changes
- Monitoring exposure to changes in foreign exchange rates
- Undertaking stress testing

In 2010 and 2009, the Company did not have a trading program.

The Board is responsible for approving the market risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Compliance to these policies is monitored on a monthly basis. These policies outline maximum limits for the exposure of adjusted net interest income and the economic value of equity to market risk.

The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set market risk strategies for the balance sheet within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*. In addition, this committee monitors the monthly simulation of the impact of interest rate changes to ensure market risk levels remain within policy and strategy parameters, and reviews derivative holdings.

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Chief Risk Officer's Report, outlining market risk levels, is provided to the Board on a quarterly basis.

The market risk objectives and methodologies have not changed materially from December 31, 2009.

Risk Measurement

The risk position is monitored in relation to policy tolerances on a monthly basis. Measurement of risk for policy purposes is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short term (next 12 months) risk position is assessed by measuring both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on total comprehensive income. The long term risk position is measured by both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on the economic value of equity.

	2010 (%)		2009 (%)	
	Total Comprehensive Income	Economic Value of Equity	Total Comprehensive Income	Economic Value of Equity
Impact of:				
100 bp increase in rates	(39.0)	(4.5)	(23.4)	(7.4)
100 bp decrease in rates ⁽¹⁾	34.3	4.1	32.4	1.9
Impact of:				
30% rate ramp increase	(17.4)	0.9	(11.1)	(2.6)
30% rate ramp decrease	21.6	(0.2)	51.4	2.8

⁽¹⁾For 2010, the rates have been adjusted to zero where effective rates at December 31, 2010 were less than 100 bp. For 2009, the sensitivity analysis utilized 25 bp for the decrease as this was the current Bank of Canada rate and this rate would not decrease below zero.

In measuring market risk for ICAAP purposes, internal models are used to quantify capital required to cover market risk exposures. In addition, internal capital is set aside for stress testing market risk exposures under extreme but plausible conditions.

Liquidity Risk

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they become due, without incurring unacceptable losses.

Objectives, Policies, and Methodologies

The Company manages liquidity risk by:

- Daily monitoring of cash flows
- Maintaining a liquidity contingency plan to ensure there is sufficient cash and high quality cash equivalents to support daily liquidity needs
- Investing a prudent portion of the security portfolio in liquid, low-risk, unencumbered instruments
- Acquiring credit union, commercial, and retail deposits
- Accessing capital markets by the issuance of commercial paper and accessing asset securitization vehicles
- Maintaining external credit facilities including lines of credit to support daily liquidity needs and unforeseen liquidity events
- Undertaking stress testing
- Maintaining an investment grade market rating

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Board is responsible for approving the liquidity risk tolerances in the *Balance Sheet Policy* upon the recommendation of the Audit and Risk Committee. Further operating liquidity risk policies are outlined in the *Balance Sheet Operating Policy* which is within the authority of the President and Chief Executive Officer. Compliance to these policies is monitored on a monthly basis.

The Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set liquidity risk strategies for the balance sheet within the risk tolerances in the *Balance Sheet Policy* and *Balance Sheet Operating Policy*. In addition, this committee monitors the liquidity position and projections, including the results of stress testing.

The Chief Risk Officer's Report, outlining liquidity risk levels, is provided to the Board a quarterly basis.

The liquidity risk objectives, policies, and methodologies have not changed materially from December 31, 2009.

Contractual Obligations

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments which affect our liquidity. Depending on the nature of these commitments, the obligations may be recorded on- and off-balance sheet. The following table provides a summary of our primary future contractual funding commitments.

	2010 (\$) ⁽¹⁾					2009 (\$) ⁽¹⁾
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total	Total
Loans and Notes Payable	48,462	-	-	-	48,462	243,577
Subordinated Debentures	660	-	-	73,172	73,832	73,732
Total Exposure	49,122	-	-	73,172	122,294	317,309

⁽¹⁾The amounts presented exclude accrued interest except for the category within 3 months.

Risk Measurement

The assessment of the liquidity position reflects management's estimates, assumptions, and judgments relative to current and future company specific operations and market conditions.

The Company's liquidity position is monitored on a daily basis to ensure obligations can be met and cash resources are optimized for the balance sheet. The goal is to effectively use the back stop liquidity facilities to ensure liquidity access during constrained liquidity conditions.

The on-balance sheet liquidity position is monitored for policy purposes in reference to the liquid asset ratio calculation (liquid assets as a percentage of total assets). At December 31, 2010, the liquid asset ratio was 24.2% (26.5% at December 31, 2009).

In measuring liquidity risk for ICAAP purposes, internal models are used to quantify capital required to cover liquidity risk exposures. In addition, internal capital is set aside for stress testing liquidity risk exposures under extreme but plausible conditions.

28. REGULATORY CAPITAL MANAGEMENT

The Company manages and monitors capital from several perspectives, including regulatory capital and ICAAP capital. Capital levels for the Company are regulated pursuant to Capital Adequacy Requirements guidelines issued by OSFI, known as Basel II.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding AOCI. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of subordinated debentures, which qualify as Tier 2B capital, less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

Regulatory ratios are calculated by dividing Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The Company does not meet the qualifying criteria for computing market risk, which is the value of the trading book assets or liabilities being at least 10% of total assets and exceeding \$1 billion. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Current OSFI targets are a minimum Tier 1 regulatory capital to RWA ratio of 7% and a minimum Total regulatory capital to RWA ratio of 10%. In addition to the Tier I regulatory capital to RWA ratio and Total regulatory capital to RWA ratio, Canadian financial institutions are required to ensure that their Assets to capital multiple, which is calculated by dividing gross adjusted assets by Total regulatory capital, does not exceed a maximum level prescribed by OSFI.

Throughout 2010 and 2009, the Company has been in compliance with OSFI prescribed capital adequacy requirements.

	2010	2009
Capital		
Tier 1 regulatory capital	200,614	186,530
Total regulatory capital	273,964	259,844
Risk-weighted assets		
Credit risk	1,368,897	1,416,185
Market risk	-	-
Operational risk	168,183	147,738
Total risk-weighted assets	1,537,080	1,563,923
Capital Ratios		
Tier 1 regulatory capital to risk-weighted assets	13.1%	11.9%
Total regulatory capital to risk-weighted assets	17.8%	16.6%
Assets to capital multiple	13.0X	14.2X



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