

Financial Statements of

**SUDBURY CREDIT  
UNION LIMITED**

Year ended December 31, 2010



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## INDEPENDENT AUDITORS' REPORT

To the Members

We have audited the accompanying financial statements of **Sudbury Credit Union Limited** ("the Credit Union"), which comprise the balance sheet as at December 31, 2010, the statements of earnings, changes in members' equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Managements' Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

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

### *Other Matter*

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the Schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Chartered Accountants, Licensed Public Accountants

Sudbury, Canada  
February 28, 2011

# SUDBURY CREDIT UNION LIMITED

## Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009
<b>Assets</b>		
Cash	\$ 3,660,927	\$ 8,146,355
Loans to members (note 3)	151,043,013	141,434,035
Income taxes recoverable	-	335,489
Other assets	1,694,378	1,439,090
Investments (note 4)	23,521,578	23,339,327
Property and equipment (note 5)	1,992,065	2,106,574
Future income taxes (note 11)	110,000	7,400
	<b>\$ 182,021,961</b>	<b>\$ 176,808,270</b>

## Liabilities and Members' Equity

Members' accounts (note 6)	\$ 164,105,554	\$ 160,107,417
Liabilities to non-members:		
Accounts payable and accrued liabilities	1,141,637	930,503
Income taxes payable	232,051	-
	<b>1,373,688</b>	<b>930,503</b>
Liabilities qualifying for regulatory capital (note 8)	4,346,635	4,219,583
Members' equity	12,196,084	11,550,767
Commitments (note 12)		
Contingencies (note 15)		
	<b>\$ 182,021,961</b>	<b>\$ 176,808,270</b>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# SUDBURY CREDIT UNION LIMITED

## Statement of Earnings

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Interest - non-mortgage loans	\$ 2,530,385	\$ 2,679,669
- mortgage loans	5,533,572	5,520,351
- investment income	1,063,174	893,142
	<u>9,127,131</u>	<u>9,093,162</u>
Cost of financing:		
Interest - registered retirement savings plan	1,461,443	1,357,816
- term deposits	1,408,662	1,734,834
- deposits	97,925	113,850
- registered retirement income fund	372,466	447,757
- tax free savings accounts	163,184	80,146
Class B special share dividends	135,978	131,382
	<u>3,639,658</u>	<u>3,865,785</u>
Net interest income	5,487,473	5,227,377
Provision for impaired loans (note 3(c))	1,038,517	489,000
Net interest income after provision for impaired loans	4,448,956	4,738,377
Other revenue	1,099,335	1,200,816
	<u>5,548,291</u>	<u>5,939,193</u>
Expenses (Schedule):		
Personnel	2,566,466	2,463,146
General	1,261,785	1,204,993
Occupancy	251,894	255,399
Amortization of property and equipment	201,014	183,798
Organization	167,044	123,403
Insurance	256,371	209,679
	<u>4,704,574</u>	<u>4,440,418</u>
Earnings before the undernoted	843,717	1,498,775
Other	-	(951,137)
Earnings before income taxes	843,717	547,638
Income taxes: (note 11)		
Current	301,000	69,400
Future (recovery)	(102,600)	39,300
	<u>198,400</u>	<u>108,700</u>
<b>Net earnings</b>	<b>\$ 645,317</b>	<b>\$ 438,938</b>

See accompanying notes to financial statements.

# SUDBURY CREDIT UNION LIMITED

## Statement of Members' Equity

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Balance, beginning of year	\$ 11,550,767	\$ 11,111,829
Net earnings	645,317	438,938
<b>Balance, end of year</b>	<b>\$ 12,196,084</b>	<b>\$ 11,550,767</b>

See accompanying notes to financial statements.

# SUDBURY CREDIT UNION LIMITED

## Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings	\$ 645,317	\$ 438,938
Adjustments for:		
Amortization of property and equipment	201,014	183,798
Provision for impaired loans	1,038,517	489,000
Future income taxes (recovery)	(102,600)	39,300
	<u>1,782,248</u>	<u>1,151,036</u>
Change in non-cash working capital		
Other assets	(255,289)	(325,152)
Income taxes	567,540	(420,365)
Accounts payable and accrued liabilities	211,135	(75,506)
	<u>2,305,634</u>	<u>330,013</u>
Financing activities:		
Net change in members' accounts	3,998,137	5,576,780
Net change in share accounts	(36,132)	(177,555)
Issuance of Class B special shares	163,184	131,382
	<u>4,125,189</u>	<u>5,530,607</u>
Investing activities:		
Net change in loans to members	(10,647,495)	(168,997)
Additions to property and equipment	(86,505)	(194,759)
Net increase in investments	(182,251)	(2,652,623)
	<u>(10,916,251)</u>	<u>(3,016,379)</u>
<b>Net increase (decrease) in cash</b>	<b>(4,485,428)</b>	<b>2,844,241</b>
Cash, beginning of year	8,146,355	5,302,114
<b>Cash, end of year</b>	<b>\$ 3,660,927</b>	<b>\$ 8,146,355</b>
Supplemental cash flow information:		
Income taxes paid (received)	\$ (266,540)	\$ 492,766
Interest paid	3,693,921	3,903,715

See accompanying notes to financial statements.

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

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Sudbury Credit Union Limited (the "Credit Union") was incorporated on October 9, 1951 and operates in compliance with the Credit Union and Caisses Populaires Act of Ontario (the "Act"). The Credit Union is a member of Central 1 Credit Union ("Central 1") and the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial services and products to its members through five branches in the Greater Sudbury area.

### 1. Future accounting changes:

Amendments to Section 1506 "Accounting Changes" excludes from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Credit Union is no longer required to disclose the progress of its implementation of International Financial Reporting Standards ("IFRS") in the notes to the Financial Statements

### 2. Significant accounting policies:

The financial statements of the Credit Union have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Credit Union are as follows:

#### (a) Loans to members:

Loans to members are designated as loans and receivable and are initially measured at fair value and are subsequently remeasured at their amortized cost (net of an allowance for loan losses) using the effective interest rate method. Loans considered uncollectible are written off.

Interest income is recognized on an accrual basis except for loans classified as impaired.

All transaction fees and expenses are recorded in other income and expense at the transaction date.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 2. Significant accounting policies (continued):

### (b) Allowance for impaired loans:

The Credit Union maintains allowances for impaired loans which reduce the carrying value of loans identified as impaired to their estimated realizable amounts. Loans classified as impaired include loans for which interest or principal payments are ninety days past due and those considered to be impaired by management. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

Specific allowances are established for loans identified as impaired. These allowances are supplemented by general allowances for losses based on payment arrears, known risk in the portfolio, historical loan loss experience and current economic conditions and trends. The allowance for impaired loans is calculated in accordance with the guidelines established by DICO.

### (c) Financial instruments - recognition and measurement:

Financial assets and liabilities are recognized on the balance sheet of the Credit Union at the time that the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union recognizes financial instruments at the settlement date.

All financial assets and liabilities are to be measured at fair value upon initial recognition, except for certain related party transactions. Subsequent measurement is dependent upon the financial instrument's classification.

There have been no reclassifications or derecognition of financial assets during the year.

### (d) Effective interest method:

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

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 2. Significant accounting policies (continued):

### (e) Cash resources:

Cash resources comprise balances with less than 100 days maturity from the date of acquisition, including cash on hand, current accounts, short-term deposits with other financial institutions and cheques and other items in transit. Cash resources have been designated as Held for Trading, except for short term deposits with less than 100 days maturity from the date of acquisition which are designated as Loans and Receivables, and are measured at fair value with all changes in fair value being recognized in interest income. Given their short term nature, the book value of cash resources, excluding short term deposits, is a reasonable approximation of fair value. Interest earned on these instruments is included in interest income and transaction costs are expensed as incurred.

### (f) Financial instruments - non-derivative financial instruments:

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

#### Assets - Held-to-Maturity:

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

#### Assets - Loans and receivables:

Non-derivative financial assets that have fixed or determinable payments are classified as loans and receivables. They are carried at amortized cost, using the effective interest rate method.

#### Assets - Held-for-Trading:

Non-derivative financial assets which the Credit Union has acquired principally for the purpose of selling or repurchasing in the near term, or are part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or are designated at fair value using the fair value option are classified as held-for-trading. These investments are recorded at fair value with changes taken directly to the statement of earnings.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 2. Significant accounting policies (continued):

### (f) Financial instruments - non-derivative financial instruments (continued):

#### Assets - Available for Sale:

Non-derivative financial assets that the Credit Union has classified as Available for Sale are those assets that are explicitly designated as such, or which by virtue of not being designated as Loans and Receivables, Held-for-Trading or Held-to-Maturity are designated as Available for Sale as a default classification. These assets are presented at fair value. Unrealized gains and losses, after applicable taxes, are reported in Other Comprehensive Income. Investments in equity instruments classified as Available for Sale which do not have a quoted market price in an active market are measured at cost.

The Credit Union reduces the carrying value when any declines in the value of financial assets classified as Available for Sale are considered other than temporary and records the charge to earnings.

#### Liabilities - Other Liabilities

The Credit Union has designated all financial liabilities as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense.

### (g) Comprehensive earnings:

In the event that the Credit Union has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings is included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

### (h) Other assets:

Other assets include prepaid expenses and accounts receivable.

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

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### 2. Significant accounting policies (continued):

(i) Property and equipment:

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over the expected useful life of the assets as follows:

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Buildings	10 to 40 years
Furniture and equipment	3 to 10 years
Terminals and automated banking machines	5 to 7 years
Computer software and hardware	3 to 7 years
Leasehold improvements	Term of the lease

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(j) Share capital:

The membership shares, Class A patronage shares and Class B special shares are classified on the balance sheet as liabilities. Any dividends authorized on these shares are recorded as interest expense.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Actual results could differ from those estimates. Significant estimates have been made in the areas of loan losses and the present value of accrued pension benefits and fair values of financial instruments.

(l) Income taxes:

The Credit Union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that included the date of enactment or substantial enactment.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 2. Significant accounting policies (continued):

### (m) Foreign currency translation:

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on translation of monetary items are included in earnings for the year.

### (n) Employee future benefits:

The Credit Union has a defined benefit pension plan for management employees. The accrued benefit assets (liabilities) are included in other assets (accounts payable and accrued liabilities). The Credit Union has adopted the following policies:

- (i) The cost of the accrued benefit obligations for pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages.
- (ii) For the purpose of calculating expected return on plan assets, those assets are valued at fair value.
- (iii) Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- (iv) When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.
- (v) Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains (losses) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 13.5 years (2009 - 12.7 years).

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

## 2. Significant accounting policies (continued):

### (o) Equity swap agreements:

The Credit Union enters into a hedge agreement with Central 1 to offset the exposure to the S&P (TSX) 60 Index, whereby the Credit Union pays Central 1 a fixed rate of interest for three or five years on the face value of the Index-linked deposits sold. At the end of the term Central 1 pays to the Credit Union an amount equal to the amount that will be paid to the depositor based on the performance of the S&P (TSX) 60 Index.

The index-linked products are recorded at fair value with all changes in fair value recorded in income. Interest expense related to these products is expensed as incurred. The fair market value of the related option value and liability to members are included in other assets and accounts payable and accrued liabilities.

## 3. Loans to members:

### (a) Net carrying value of loans:

An analysis of the loan portfolio is as follows:

	2010			2009		
	Outstanding Balance	Allowance	Net	Outstanding Balance	Allowance	Net
Residential mortgages	\$ 86,102,884	209,631	85,893,253	77,532,801	133,496	77,399,305
Personal loans	10,561,484	181,747	10,379,737	12,597,829	368,285	12,229,544
Commercial						
- mortgage loans	25,179,879	726,328	24,453,551	19,546,026	270,000	19,276,026
- non-mortgage loans	30,670,373	353,901	30,316,472	32,557,374	28,214	32,529,160
	\$ 152,514,620	1,471,607	151,043,013	142,234,030	799,995	141,434,035

### (b) Impaired loans:

An analysis of the impaired loans and related allowances is as follows:

	2010				2009	
	No. of Loans	Principal Value	Allowance	Net	No. of Loans	Net
Residential mortgages	6	\$ 532,651	15,214	517,437	10	670,149
Personal loans	14	114,157	97,155	17,002	32	114,665
Commercial						
- mortgage loans	2	1,880,866	726,328	1,154,538	2	1,729,451
- non-mortgage loans	3	1,205,889	217,348	988,541	3	360,295
	25	\$ 3,733,563	1,056,045	2,677,518	47	2,874,560

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

### 3. Loans to members (continued):

(c) Continuity of allowance for impaired loans:

The following table analyzes changes in the allowance for impaired loans:

	Residential Mortgages	Personal Loans	Commercial Loans	2010 Total	2009 Total
Balance, beginning of year	\$ 133,496	368,285	298,214	799,995	543,980
Provision for impaired loans	98,350	77,331	862,836	1,038,517	489,000
Loans written-off	(22,215)	(280,312)	(80,821)	(383,348)	(251,895)
Recoveries of loans written-off	-	16,443	-	16,443	18,910
Balance, end of year	\$ 209,631	181,747	1,080,229	1,471,607	799,995

(d) Maturity dates of loans:

The following table analyzes the Credit Union's loan portfolio by maturity date:

	Variable rates	Fixed rates			2010	2009
		Less than 1 year	1-5 years	Over 5 years	Total	Total
Total loans	\$ 39,909,078	33,491,429	76,216,306	1,426,200	151,043,013	141,434,035
Average effective yield	5.18%	4.09%	6.05%	6.75%	5.39%	5.57%

(e) Commercial loans:

Commercial loans consist of the following loan types:

	2010	2009
Commercial	\$ 32,993,125	\$ 29,319,843
Syndicated	22,857,127	22,783,557
Allowance for impaired loans	(1,080,229)	(298,214)
	\$ 54,770,023	\$ 51,805,186

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

## 4. Investments:

	2010			2009		
	Fair value	Cost	Carrying value	Fair value	Cost	Carrying value
Available for sale:						
Shares - Central 1 / Credit Union						
Central of Ontario	\$ 1,220,212	\$ 1,295,475	\$ 1,220,212	\$ 1,233,038	\$ 1,303,538	\$ 1,233,038
2176100 Ontario Ltd.	850,142	821,554	588,554	742,875	861,387	628,387
Loans and receivables:						
Central 1 Liquidity reserve deposit	12,929,790	12,824,705	12,824,705	12,635,393	12,550,038	12,550,038
Co-Op Trust	448,750	448,750	448,750	790,353	790,353	790,353
USD Discount deposit	302,190	301,632	301,632	-	-	-
Held to maturity:						
Central 1 bonds	8,355,638	8,137,725	8,137,725	8,316,264	8,137,511	8,137,511
<b>Total investments</b>	<b>\$ 24,106,722</b>	<b>\$ 23,829,841</b>	<b>\$ 23,521,578</b>	<b>\$ 23,717,923</b>	<b>\$ 23,642,827</b>	<b>\$ 23,339,327</b>

### Central 1 Liquidity reserve deposit

As a condition of membership in Central 1, the Credit Union is required to maintain a liquidity reserve deposit at Central 1 equal to 7.0% of total assets as at each calendar quarter end. The deposits bear interest at varying rates, dependent upon the term of the investment.

### Investment in 2176100 Ontario Ltd.

As a result of the merger between Credit Union Central of Ontario Limited ("CUCO") and Credit Union Central of British Columbia ("CUCBC") to form Central 1 in 2008, member credit unions were required to invest in a limited partnership ("ABCP LP") in order to acquire third-party asset-backed commercial paper ("ABCP"). Members of CUCO were required to purchase units in the ABCP LP based on their proportionate asset size. The Credit Union was required to purchase 1,120,061 units in the ABCP LP.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 4. Investments (continued):

### Investment in 2176100 Ontario Ltd. (continued)

The fair value of these units is directly related to the ABCP investments held by the ABCP LP. As there is no active market for the underlying investments, this investment is being carried at cost. During the year, the Credit Union received \$39,833 (2009 - \$174,815) in capital distributions from ABCP LP that were recorded as a reduction in the original investment.

During 2008, there was an other-than-temporary deterioration in the quality of the underlying ABCP assets in the investment. Accordingly, a \$233,000 impairment charge was recorded against the carrying value of the investment. The impairment charge was calculated as the carrying amount of the ABCP investment less its fair value as at December 31, 2008. Fair value of the underlying ABCP in the investment is determined by ABCP LP's independent valuator, Edenbrook Hill Capital Ltd. No further impairment was recorded during 2010.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner records its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles.

### Shares in Central 1

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

When CUCO and CUCBC merged to form Central 1, CUCO sold substantially all of its asset to Central 1 in exchange for Class A and Class E shares. The final number of shares was subject to future price adjustments. During 2010, the Credit Union was required to purchase 8,063 Central 1 Class A shares and received \$23,204 in dividends from the investment. Central 1 also distributed 208,200 Class E shares in exchange for the balance of CUCO shares

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

## 4. Investments (continued):

### Shares in Central 1 (continued)

The following table summarizes shares invested in CUCO/Central 1 as at December 31, 2010:

(In thousands of dollars)	2010	2009
416,712 Central 1 Class "A" Shares (2009 - 424,795)	\$ 416,712	\$ 424,795
803,500 Central 1 Class "E" Shares (2009 - 595,300)	803,500	595,300
Nil CUCO Shares (2009 - 77,501)	-	212,913
	\$ 1,220,212	\$ 1,233,008

As there is no market for these shares classified as available for sale, the shares are carried at cost.

### Bonds

The Central 1 bonds have various dates of maturity from 2011 to 2014.

## 5. Property and equipment:

	2010		2009	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	\$ 527,795	\$ -	\$ 527,795	\$ -
Buildings	2,057,224	909,242	2,047,277	856,211
Furniture and equipment	546,309	527,219	540,553	515,645
Terminals and automated banking machines	675,394	546,477	619,529	480,074
Computer software	621,464	586,694	612,060	571,904
Leasehold improvements	590,303	456,792	584,769	401,575
	5,018,489	3,026,424	4,931,983	2,825,409
Less accumulated amortization	3,026,424		2,825,409	
	\$ 1,992,065		\$ 2,106,574	

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

## 6. Members' accounts:

	2010	2009
Demand deposits	\$ 60,719,193	\$ 61,082,097
Term deposits	49,157,237	50,005,709
Registered retirement savings plans	32,858,269	31,774,753
Registered retirement income funds	11,376,641	11,619,336
Tax free savings accounts	9,005,536	4,446,606
Accrued interest payable	988,678	1,178,919
	<b>\$ 164,105,554</b>	<b>\$ 160,107,417</b>

The composite interest rate in force at December 31, 2010 ranged from 0% to 1.00% on demand deposits.

Term deposits are accepted at guaranteed interest rates payable at maturity or annually on certificates of two to five year terms.

Certain long-term funds may be withdrawn prior to maturity date subject to a reduction of interest.

The following table analyzes the Credit Union's deposits payable by maturity date:

	Variable rates	Fixed rates		2010 Total	2009 Total
		Less than 1 year	1-5 years		
Total term deposits	-	\$ 20,789,244	28,367,993	49,157,237	50,005,709
Average effective interest rate	-	2.40%	3.27%	2.90%	3.03%
Tax free savings accounts	\$ 8,823,940	1,000	180,596	9,005,536	4,446,606
Average effective interest rate	1.75%	1.00%	2.66%	1.77%	2.25%
RRSP	\$ 3,881,300	10,138,600	18,838,369	32,858,269	31,774,753
Average effective interest rate	0.75%	3.46%	3.04%	2.90%	3.26%
RRIF	\$ 144,329	3,301,349	7,930,963	11,376,641	11,619,336
Average effective interest rate	0.75%	3.07%	3.23%	3.15%	3.37%

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

### 7. Employee benefits:

The Credit Union maintains a defined benefit pension plan which covers management employees. The most recent actuarial valuation was performed as at January 1, 2009, and the next required valuation will be as of January 1, 2012. Actuarial reports prepared during the year, based on projections of employees' compensation levels to the time of retirement, indicate the following:

	2010	2009
<b>Accrued benefit obligation:</b>		
Balance, beginning of year	\$ 3,141,400	\$ 2,169,500
Current service cost	141,100	106,300
Interest cost	178,700	157,400
Benefits paid	(67,500)	(54,500)
Actuarial loss	266,700	762,700
<b>Balance, end of year</b>	<b>\$ 3,660,400</b>	<b>\$ 3,141,400</b>
<b>Plan assets:</b>		
Fair value, beginning of year	\$ 2,648,600	\$ 1,999,100
Annual return on plan assets	191,800	147,500
Employer contributions	201,500	225,700
Employees' contributions	50,000	45,000
Benefits paid	(67,500)	(54,500)
Actuarial gain	71,200	285,800
<b>Fair value, end of year</b>	<b>\$ 3,095,600</b>	<b>\$ 2,648,600</b>
<b>Excess of accrued benefit obligation over plan assets</b>	<b>\$ (564,800)</b>	<b>\$ (492,800)</b>
Unamortized net actuarial loss	1,039,800	886,700
Unamortized past service costs	53,500	62,000
<b>Accrued benefit asset</b>	<b>\$ 528,500</b>	<b>\$ 455,900</b>

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

	2010	2009
<b>Accrued benefit obligations as of December 31:</b>		
Discount rate	5.00%	5.50%
Rate of compensation increase	4.00%	4.00%
Expected long-term rate of return on plan assets	7.00%	7.00%

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

### 7. Employee benefits (continued):

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

	2010	2009
Current service cost, net of employees' contributions	\$ 141,100	\$ 61,300
Interest on obligation	178,700	157,400
Interest on assets	(191,800)	(147,500)
Amortization of past service costs	8,500	8,500
Amortization of net actuarial gains and losses	42,400	-
Net benefit plan expense	\$ 178,900	\$ 79,700

### 8. Liabilities qualifying for regulatory capital:

Share capital:

	2010	2009
Membership shares - 9,860 (2009 - 9,861)	\$ 98,960	\$ 98,610
Class A patronage shares - 226,709 (2009 - 235,900)	226,709	235,900
Class B special shares - 4,020,966 (2009 - 3,885,073)	4,020,966	3,885,073
	\$ 4,346,635	\$ 4,219,583

(a) Membership shares:

An unlimited number of voting, non-cumulative member shares have been authorized with a stated value of \$10 per share. Member shares are the minimum share deposit requirement for membership and form part of regulatory capital (see note 9). These shares are non-interest bearing and are payable to members upon termination of membership.

(b) Class A patronage shares:

An unlimited number of Class A non-voting, non-cumulative patronage shares have been authorized with a stated value of \$1 per share. Ownership benefit shares, which represent cumulative patronage allocations for existing members, form part of regulatory capital (see note 9). These shares rank ahead of member shares, are non-interest bearing and are payable to members upon termination of membership, or at the discretion of the Board of Directors.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 8. Liabilities qualifying for regulatory capital (continued):

### (c) Class B special shares:

An unlimited number of non-voting, non-cumulative Class B special shares were authorized with a stated value of \$1 per share. The Class B special shares provide for redemption, at the sole discretion of the Board of Directors, five years following issuance. These special shares rank ahead of Class A patronage shares and member shares. Investment shares form part of regulatory capital (see note 9).

## 9. Capital management:

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

The entity's objectives when managing capital are:

To ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth.

To provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values.

To provide a basis for confidence among members, depositors, creditors and Regulatory agencies.

To form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement.

To establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with DICO's Standards of Sound Business and Financial Practices.

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

The Act requires credit unions to maintain a capital ratio of 4% and a risk-weighted capital ratio of 8.0%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act plus a prudent cushion. The current minimum ratios per board policy are a capital ratio of 6% and a risk-weighted capital ratio of 8.5%. As at December 31, 2010, capital as a percentage of assets was 9.31% (2009 - 8.86%) and capital as a percentage of risk weighted assets was 18.02% (2009 - 17.49%).

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

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### 9. Capital management (continued):

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

As at December 31, 2010, the amount and composition of Tier 1 capital was as follows:

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<u>Tier 1 Capital</u>	
Members' equity	\$ 12,196,084
Membership shares	98,960
Class A patronage shares	226,709
Non-redeemable portion of Class B special shares (90%)	3,618,869
	<hr/> 16,140,622
<u>Tier 2 Capital</u>	
Redeemable portion of Class B special shares (10%)	402,097
	<hr/>
Total Regulatory Capital	<hr/> \$ 16,542,719 <hr/>

### 10. Financial risk management:

The nature of the Credit Union's holdings of financial instruments exposes the Credit Union to credit, liquidity and market risk.

#### Credit Risk

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

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

- (i) Centralized approval by the Board of Director's, of all credit risk policies reflecting the following six categories:
  - a. Credit risk assessment includes policies related to credit risk analysis, risk rating and risk scoring;

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 10. Financial risk management (continued):

### Credit Risk (continued)

- b. Credit risk mitigation includes credit structuring, collateral and guarantees;
  - c. Credit risk approval includes credit risk limits and exceptions;
  - d. Credit documentation focuses on documentation and administration;
  - e. Credit review focuses on monitoring for financial performance, covenant compliance and any sign of deterioration;
  - f. Credit portfolio management includes sectoral, geographic, and overall risk concentration limits and risk quantification;
- (ii) Centralized approval by the Chief Executive Officer of the discretionary limits of lending officers throughout the Credit Union;
- (iii) Credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment. Credit approvals are escalated to the Credit Manager, Chief Executive Officer (CEO) and ultimately to the Board of Director's, dependant upon credit exposure level and restricted party transactions;
- (iv) Credit department oversight of the following:
- a. The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies governing industry risk and group exposures;
  - b. The development and implementation of credit risk models and policies for establishing borrower risk ratings to quantify and monitor the level of risk and facilitate management of commercial credit business;
  - c. Approval of the scoring techniques and standards used in extending, monitoring and reporting of personal credit business;
  - d. Implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

The Board has delegated to the CEO the authority to establish a lending hierarchy. As such, a procedure for the delegation of lending authority has been developed and is in active use. The Credit Union employs persons who are competent and qualified to manage its credit granting activities. Staff may be designated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio, are granted the authority to use judgement and discretion consistent with policy, in discharging their duties.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 10. Financial risk management (continued):

### Credit Risk (continued)

Management has the responsibility to:

- (i) Systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio;
- (ii) Prudently manage the exposure to default and loss arising from those risks;
- (iii) Employ and train, as necessary, personnel who can implement risk measurement and credit management techniques as required by policy.

Adequate measuring, monitoring and reporting on risk position and exposure is maintained and compliance and audit responsibilities are in place and adhered to. The Board of Director's receives regular summary measurements of the credit portfolio.

The Credit Union's credit risk portfolio is classified as "retail" and "commercial/agricultural", and a different risk measurement process is employed for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

The Credit Union's credit risk policies, processes and methodologies have not changed materially from the prior year with the exception of enhanced industry analysis and amendments to the basis for concentration measurement.

Except as noted, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk without taking into account the value of any collateral obtained. The Credit Union is also exposed to credit risk through transactions which are not recognized in the balance sheet, such as granting financial guarantees and extending loan commitments. Refer to Notes 12 and 14 for further details. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained. Refer to Note 3 for a description of the nature of the security held against loans as at the balance sheet date.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 10. Financial risk management (continued):

### Interest Rate Risk

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

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

The key elements of the entity's interest rate risk management framework include:

- (i) Guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;
- (ii) Requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying amounts of interest sensitive assets and liabilities are presented below in the periods in which they next re-price to market rates or mature, and are summed to show the interest rate sensitivity gap. The average rates presented represent the weighted average effective yield based on the earlier of re-pricing or maturity dates.

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and liabilities to standard interest rate shock scenarios. See Note 18 for Interest Rate Sensitivity.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 10. Financial risk management (continued):

### Liquidity Risk

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

The key elements of the entity's liquidity risk management framework include:

- (i) Limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;
- (ii) Methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;
- (iii) Prudence tests of quality and diversity where investments bear credit risk;
- (iv) Parameters to limit term extension risk;
- (v) Implementation of deposit concentration limits in order to ensure diversification and stability of deposit funding;
- (vi) Requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

The Credit Union targets to maintain operating liquidity within the range of 10% to 20%. The low end of the range has been established in order to maintain a comfortable cushion beyond the statutory minimum requirements in order to meet cash needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2010 the Credit Union's liquidity ratio was 13.50% (2009 - 14.71%).

The table in note 18 below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in Notes 12 and 15.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 10. Financial risk management (continued):

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The entity is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The entity's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variance from approved limits. The aforementioned activities that expose the entity to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. U.S. dollar denominated liabilities are hedged through U.S. dollar investments and net exposure is limited to \$75,000 on a daily basis. As at December 31, 2010 the entity's exposure to a 10% reasonably possible change in the foreign exchange rate is insignificant.

### Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The entity's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2010 the entity has limited investments subject to other price risk and this exposure is insignificant.

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

### 11. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory tax rates of 31.0% (2009 - 33.0%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2010	2009
Computed tax expense	\$ 261,550	\$ 180,720
Increase (decrease) resulting from:		
Non-deductible costs	1,250	800
Small business and credit union rate reductions	(85,000)	(69,400)
Other	20,600	(3,420)
Tax provision	\$ 198,400	\$ 108,700

The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities at December 31, 2010 are presented below:

	2010	2009
Future income tax assets:		
Provision for credit losses	\$ 151,000	\$ 80,300
Property and equipment - difference in net book value and undepreciated capital cost	54,000	50,200
Investments	75,000	50,080
Other	21,025	4,395
Less valuation allowance	(17,025)	(17,025)
	284,000	167,950
Future income tax liabilities:		
Pension contributions	153,000	132,200
Other	21,000	28,350
Net future income tax asset	\$ 110,000	\$ 7,400

# SUDBURY CREDIT UNION LIMITED

## Notes to Financial Statements

Year ended December 31, 2010

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### 12. Commitments:

(a) Lines of credit:

As at December 31, 2010 the total approved lines of credit to members was approximately \$42,806,992 of which \$23,520,300 has been disbursed.

(b) Loans to members:

As at December 31, 2010 loans totaling approximately \$4,727,658 had been approved but not yet disbursed.

(c) Lease:

Minimum commitments for the rental of the Bouchard Street branch premises amount to \$85,020 annually. The lease expires in 2013 with an option to renew for one year.

Minimum commitments for the rental of Lisgar Street branch premises amounted to \$49,243 annually. The lease expires in 2016.

(d) Banking system services:

The Credit Union has contracts for banking system services that require annual payments of approximately \$293,000 for the years 2011 to 2016 inclusive.

### 13. Statutory information:

(a) Related party transactions:

At December 31, 2010, mortgage and non-mortgage loans amounting to approximately \$4,108,789 (2009 - \$3,823,079) were due from officers, directors and employees of the Credit Union. All loans issued to officers, directors and employees of the Credit Union conform to the Credit Union policies for terms, interest rates, limits and credit.

The aggregate remuneration paid to directors was \$9,900 (2009 - \$8,640).

(b) Other information:

In accordance with the required disclosure under Ontario Regulation 237/09, Section 28 of the Credit Unions and Caisses Populaires Act 1994, no officer or employee of the Credit Union had remuneration greater than \$150,000 during the year.

### 14. Central 1 demand loan:

The Credit Union has access to a line of credit facility totaling \$3,535,000 (2009 - \$3,425,000) at Central 1 at prime rate less 1.25%. The line of credit is secured by an assignment of loans to members and a general security agreement covering all assets of the Credit Union. At year end, the Credit Union was not drawn on any of its credit facilities (2009 - \$Nil).

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

## 15. Contingencies:

In the normal course of business, the Credit Union may be subject to a number of lawsuits and other legal proceedings. The outcome of these lawsuits is uncertain.

In the opinion of management, these lawsuits will not have a material effect upon the financial position of the Credit Union. Any settlement in respect of these claims will be reflected as a charge to income in the year of settlement.

## 16. Fair value of financial instruments:

(a) Estimated fair value of on-balance sheet financial instruments:

The amounts set out below represent the fair value of the Credit Union's financial instruments using the valuation methods and assumptions described below.

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

			2010	2009
	Fair Value	Book Value	Fair Value Over(under) Book Value	Fair Value Over(under) Book value
Financial assets:				
Cash	\$ 3,660,927	3,660,927	-	-
Loans to members	152,351,828	151,043,013	1,308,815	1,169,108
Investments	24,106,722	23,521,578	585,144	629,504
Financial liabilities:				
Members' accounts	\$ 163,175,485	164,105,554	(930,069)	(4,851,371)
Liabilities to non-members	1,373,688	1,373,688	-	-
Liabilities qualifying for regulatory capital	4,346,635	4,346,635	-	-

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

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## 16. Fair value of financial instruments (continued):

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (i) The fair values of cash, other assets and liabilities to non-members are assumed to approximate their carrying values, due to their short-term nature.
- (ii) The fair value of investments is based on quoted market values where available.
- (iii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rate on these loans and deposits reprice to market on a periodic basis.
- (iv) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposit accounts at current market rates for products with similar terms and credit risks.

(b) Equity swap agreements:

Included in term deposits and RRSP's and TFSA's is a total of \$6,293,085 (2009 - \$4,784,246) of index-linked deposits. The fair value of the index linked swap contracts at year-end is approximately \$694,095 (2009 - \$478,726).

## 17. Acquisition of Community Savings and Credit Union Limited:

On January 1, 2011, for the beneficial interest of its members and surrounding community, Sudbury Credit Union ("Sudbury") acquired substantially all of the financial assets and liabilities of Community Savings and Credit Union Limited ("Community"). No equity interest were acquired; all members of Community were issued new Sudbury shares.

Below represents the fair values of assets and liabilities acquired as a result of the transaction:

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	2010
Residential mortgages and personal loans	\$ 49,117,000
Cash and investments	6,201,000
Other assets	852,000
Deposits	(52,608,000)
Other liabilities	(703,000)
Share capital	(1,725,000)
<b>Amount payable to Community</b>	<b>\$ 1,134,000</b>

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It is anticipated that a future amalgamation of Sudbury and Community will result in no exchange of cash consideration to settle the amount payable.

# SUDBURY CREDIT UNION LIMITED

Notes to Financial Statements

Year ended December 31, 2010

## 18. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the 2010 presentation.

## 19. Interest rate sensitivity:

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate sensitivity gap.

	Variable Rate	Fixed Rate			Non-interest Sensitive	2010 Total
		Less than 1 Year	1 to 5 Years	Over 5 Years		
<b>Assets:</b>						
Cash resources	\$ 3,660,927	-	-	-	-	3,660,927
Investments	448,750	6,401,467	14,574,077	-	2,097,284	23,521,578
Member loans	41,380,685	33,491,429	76,216,306	1,426,200	(1,471,607)	151,043,013
Other assets	-	-	-	-	3,796,443	3,796,443
	45,490,362	39,892,896	90,790,383	1,426,200	4,422,120	182,021,961
<b>Liabilities and Members' Equity:</b>						
Member deposits	48,057,184	-	-	-	12,662,009	60,719,193
Term deposits	-	20,789,244	28,367,993	-	-	49,157,237
RRSP	3,881,300	10,138,600	18,838,369	-	-	32,858,269
RRIF	144,329	3,301,349	7,930,963	-	-	11,376,641
Tax free savings accounts	8,823,940	1,000	180,596	-	-	9,005,536
Other	4,020,966	-	-	-	14,884,119	18,905,085
	64,927,719	34,230,193	55,317,921	-	27,546,128	182,021,961
On balance sheet mismatch	(19,437,357)	5,662,703	35,472,462	1,426,200	(23,124,008)	-
Off balance sheet mismatch	-	-	-	-	-	-
Cumulative mismatch	\$ (19,437,357)	(13,774,654)	21,697,808	23,124,008	-	-

It is estimated that an immediate and sustained parallel increase in interest rates of 1% sources across all maturities and currencies would increase net interest income by approximately \$92,000 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately \$92,000 over the next twelve months using the following assumptions:

- i) accrued interest receivable and payable as at December 31, 2010 are excluded from the calculation;
- ii) no hedging of interest rate exposures are made;
- iii) instruments repriced evenly within their respective time bands;
- iv) existing credit commitments will not be drawn upon; and
- v) no prepayments of fixed term loans or early redemption of redeemable fixed term deposits will be made.

# SUDBURY CREDIT UNION LIMITED

## Schedule of Expenses

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
<b>Personnel:</b>		
Salaries and commissions	\$ 2,026,197	\$ 1,994,309
Benefits	310,980	304,937
Pensions	197,645	143,686
Employee training	31,644	20,214
	<b>\$ 2,566,466</b>	<b>\$ 2,463,146</b>
<b>General:</b>		
Electronic data processing services	\$ 474,726	\$ 399,095
Advertising	197,735	240,977
Other expenses	154,706	151,479
Cash and current account costs	132,408	134,145
Professional fees	122,971	93,708
Stationery and supplies	31,597	43,200
Postage expenses	44,904	39,324
Equipment maintenance	47,917	37,958
Lending costs	29,574	37,019
Telephone	25,247	28,088
	<b>\$ 1,261,785</b>	<b>\$ 1,204,993</b>
<b>Occupancy:</b>		
Rent	\$ 107,783	\$ 103,837
Building repairs and maintenance	74,749	73,722
Property taxes	37,222	41,796
Heat, light and water	32,140	36,044
	<b>\$ 251,894</b>	<b>\$ 255,399</b>
<b>Organization:</b>		
Other	\$ 83,141	\$ 52,995
Central 1 dues	34,144	36,390
Board and committees	47,935	31,061
Annual meeting	1,824	2,957
	<b>\$ 167,044</b>	<b>\$ 123,403</b>
<b>Insurance:</b>		
Deposit	\$ 120,183	\$ 117,064
Bonding	80,381	54,624
Casualty	38,459	33,991
Savings	17,348	4,000
	<b>\$ 256,371</b>	<b>\$ 209,679</b>

See accompanying notes to financial statements.