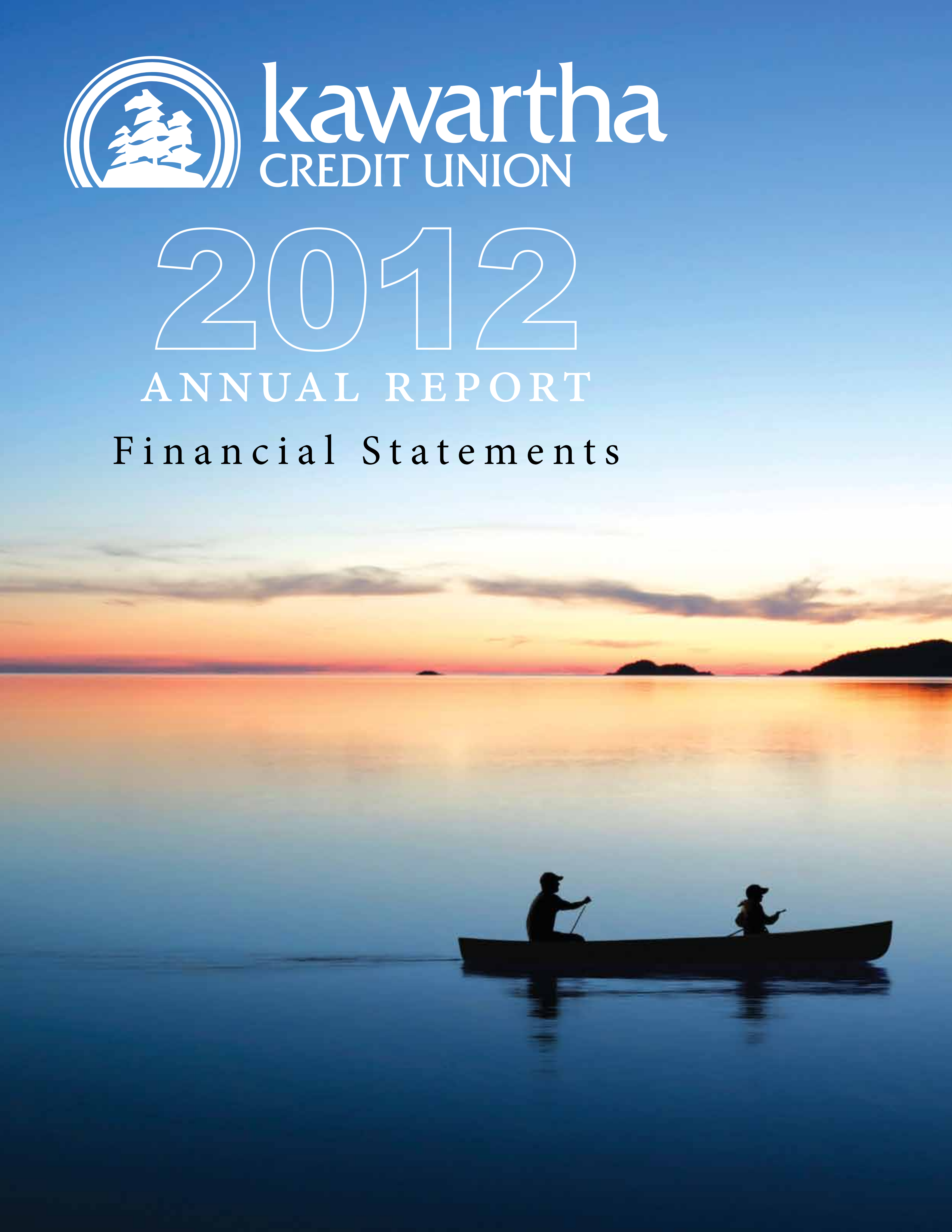
kawartha
CREDIT UNION

2012
ANNUAL REPORT
Financial Statements



Kawartha Credit Union Limited

Financial Statements

At December 31, 2012

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Independent Auditor's Report

To the Members of Kawartha Credit Union Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Kawartha Credit Union Limited, which comprise the statements of financial position as at December 31, 2012, September 30, 2011, and October 1, 2010, and the statements of comprehensive income, changes in members' equity and cash flows for the 15 month period ended December 31, 2012 and for the year ended September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained 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 Kawartha Credit Union Limited as at December 31, 2012, September 30, 2011, and October 1, 2010, and its financial performance and its cash flows for the 15 month period ended December 31, 2012 and the year ended September 30, 2011, in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Peterborough, Ontario
February 20, 2013

KAWARTHA CREDIT UNION LIMITED

Statement of Financial Position

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
	(Note 2a)		
Assets			
Cash resources (Note 5)	$ 19,173	$ 16,811	$ 18,570
Liquidity deposits (Note 6)	57,144	40,771	45,939
Investments (Note 6)	10,028	6,611	6,331
Derivative financial instruments (Note 7)	692	1,694	1,008
Loans to members (Note 8)	858,506	650,850	586,027
Other assets (Note 11)	8,268	6,972	4,786
Property and equipment (Note 10)	12,118	4,740	4,938
	$ 965,929	$ 728,449	$ 667,599
Liabilities and Members' Equity			
Liabilities			
Term loans (Note 22a)	$ 39,000	$ 25,000	$ 53,000
Member deposits (Note 12)	802,101	604,912	557,835
Accounts payable and accrued liabilities	4,037	5,263	4,628
Derivative financial instruments (Note 7)	978	2,056	1,166
Securitized mortgages under administration (Note 24)	42,301	34,714	-
Members' shares (Note 15)	1,137	866	845
Employee future benefits (Note 13)	4,388	4,055	3,576
	893,942	676,866	621,050
Members' Equity			
Class A Investment shares (Note 15)	25,830	12,495	12,495
Class B Affinity shares (Note 15)	7,368	5,746	3,757
Contributed surplus	258	230	210
Retained earnings	39,061	33,650	30,094
Accumulated other comprehensive income	(530)	(538)	(7)
	71,987	51,583	46,549
	$ 965,929	$ 728,449	$ 667,599

Approved by the Board:

Carl N. Silvestri Director

Robert Fabre Director

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Statement of Comprehensive Income

(thousands of Canadian dollars)	15 month period ended December 31 2012	Year ended September 30 2011
Financial Revenue		
Interest on loans to members	$ 48,334	$ 32,249
Investment income	1,075	787
	49,409	33,036
Financial Expense		
Interest on deposits	16,679	10,726
Interest on borrowings	595	538
	17,274	11,264
Financial Margin	32,135	21,772
Other Income	6,512	4,897
	38,647	26,669
Operating Expenses		
Salaries and employee benefits	16,582	10,969
Loan loss expense (Note 9)	970	767
Occupancy	3,647	2,067
Banking costs	1,077	741
Other expenses (Note 16)	3,974	2,428
Data costs	2,307	1,145
Deposit insurance	804	462
Promotion	1,422	1,207
Directors' expenses	230	136
	31,013	19,922
Operating Income	7,634	6,747
Increase in fair value of investments	848	219
Gain on amalgamation (Note 4)	1,273	-
Patronage distributions	(1,724)	(2,069)
Income before income taxes	8,031	4,897
Income tax expense (Note 14)	756	584
Net Income	7,275	4,313
Other comprehensive income (loss)		
Unrealized gains (losses) on financial derivatives designated as cash flow hedges net of tax effect	8	(531)
Comprehensive income	$ 7,283	$ 3,782

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Statement of Changes in Member's Equity

(thousands of Canadian dollars)

	Accumulated Other Comprehensive Income	Class A Investment Shares	Class B Affinity Shares	Retained Earnings and Contributed Surplus	Total
Balance at October 1, 2010	**$ (7)**	**$ 12,495**	**$ 3,757**	**$ 30,304**	**$ 46,549**
Net income	-	-	-	4,313	4,313
Dividends				(1,112)	(1,112)
Related tax savings	-	-	-	354	354
Class B Affinity Shares					
Share issuance	-	-	2,010	-	2,010
Forfeitures	-	-	(21)	21	-
Change in unrealized gains (losses) on cash flow hedges	(531)	-	-	-	(531)
Balance on September 30, 2011	**(538)**	**12,495**	**5,746**	**33,880**	**51,583**
Net income	-	-	-	7,275	7,275
Dividends (Note 15)	-	-	-	(2,561)	(2,561)
Related tax savings (Note 15)	-	-	-	698	698
Class A share issuance	-	13,335	-	-	13,335
Class B Affinity Shares					
Share issuance	-	-	1,649	-	1,649
Forfeitures	-	-	(27)	27	-
Change in unrealized gains (losses) on cash flow hedges	8	-	-	-	8
Balance on December 31, 2012	**$ (530)**	**$ 25,830**	**$ 7,368**	**$ 39,319**	**$ 71,987**

The accompanying notes are an integral part of these financial statements.

KAWARTHA CREDIT UNION LIMITED

Statement of Cash Flows

(thousands of Canadian dollars)	15 month period ended December 31 2012	Year ended September 30 2011
Operating activities		
Net income	$ 7,275	$ 4,313
Adjustments for:		
Amortization	1,543	862
Unrealized losses (gains) on fair value adjustments of investments	(848)	(219)
Gain on amalgamation	(1,273)	-
	6,697	4,956
Changes in operating assets and liabilities:		
Other assets	165	(2,186)
Derivative financial instruments	(68)	(327)
Accounts payable and accrued liabilities	(3,261)	635
Employee future benefits	333	479
Net mortgage securitization premium	-	(204)
Changes in allowance for loan losses	3,922	201
Increase in members' deposits	40,973	48,233
Increase in accrued interest payable	(955)	(1,156)
Increase in loans to members	(70,056)	(65,001)
Increase (decrease) in accrued interest receivable	643	(23)
Total cash inflows (outflows) from operating activities	(21,607)	(14,393)
Financing Activities		
Decrease (increase) in liquidity deposits	(6,440)	5,168
Advances (repayments) of term loans	14,000	(28,000)
Proceeds of mortgage securitization	13,949	34,918
Payment of mortgage securitization liabilities	(6,362)	-
Increase in contributed surplus	27	21
Increase in Class A Investment shares	9,597	-
Increase in Class B Affinity shares	1,622	1,989
Increase in membership shares	271	21
Dividends paid to members net of tax savings	(1,863)	(758)
Total cash inflows from financing activities	24,801	13,359
Investing Activities		
Purchases of property and equipment (net of disposals)	(7,300)	(664)
Decrease (increase) in investments (net)	(1,727)	(61)
Net cash inflows from amalgamation	8,195	-
Total cash inflows (outflows) from investing activities	(832)	(725)
Net increase (decrease) in cash resources	2,362	(1,759)
Cash resources, beginning of year	16,811	18,570
Cash resources, end of year	$ 19,173	$ 16,811

Refer to Note 18 for supplementary cash flow information.

The accompanying notes are an integral part of these financial statements.

1. Nature of Operations

Kawartha Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and internet banking. The Credit Union head office is located at 1054 Monaghan Road, Peterborough, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 20, 2013.

2. Significant Accounting Policies

a) Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). This is the first time that the Credit Union has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (pre-changeover Canadian GAAP). Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 25.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, fair value through profit and loss, and derivative financial instruments measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

As a result of an amalgamation with Unity Savings and Credit Union Limited as described in Note 4, the Credit Union is required to adopt a December 31 year end in accordance with the Credit Unions and Caisses Populaires Act, 1994. As a result of this change, the Credit Union has chosen to present a 15 month period in the financial statements and, therefore, the financial information for the prior years being presented will not be entirely comparable.

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with Central 1 and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables under Financial Instrument reporting requirements and are carried at amortized cost, which is equivalent to fair value.

2. Significant Accounting Policies (continued)

c) Investments

These instruments are classified as either available for sale or fair value through profit and loss. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value of investments carried at fair value through profit and loss, except for those arising from interest calculated using the effective interest rate, are recognized in net income as increase in fair value of investments. A gain or loss on available for sale financial assets, except for impairment losses are recognized in comprehensive income.

d) Hedges

The Credit Union, in accordance with its risk management policies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in income as other income.

2. Significant Accounting Policies (continued)

d) Hedges (continued)
If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in net income within interest expense or interest revenue.

e) Other Non-Hedge Derivatives
The Credit Union measures certain financial assets upon initial recognition at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

f) Member Loans
All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short- term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in net income.

2. Significant Accounting Policies (continued)

g) Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

h) Loan Securitization

For securitization transactions initiated prior to the date of transition to IFRS (October 1, 2010), in accordance with pre-changeover Canadian GAAP, loan securitizations were treated as a sale, provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. Gains on these transactions were reported as other income. The amount of these gains are based on the present value of expected future cash flows using management's best estimates and key assumptions such as prepayment rates, excess spread, credit losses and discount rates. The Credit Union has a contractual obligation to service the loans on behalf of the transferee.

For securitization transactions initiated after the date of transition to IFRS (October 1, 2010), loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

If the criteria for derecognition has been met, the securitization is treated as a sale and the mortgages are derecognized on the Statement of Financial Position. The Credit Union has a contractual obligation to service the loan on behalf of the transferee. Income earned relating to the servicing of these mortgages is recorded in other income.

i) Property and Equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Parking lot		25 years
Buildings		25 - 50 years
Buildings	- interior renovations	10 years
Equipment	- computer	3 - 5 years
	- furniture & other	5 - 10 years
Leasehold improvements		Remaining term of the lease
Member files		5 – 10 years

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

2. Significant Accounting Policies (continued)

j) Impairment of Non-Financial Assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

k) Income Taxes

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

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

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

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

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

l) Member Deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

2. Significant Accounting Policies (continued)

m) Employee Future Benefits

The Credit Union provides health and dental benefits for retired employees who were employed on a full time basis prior to November 1, 2003. The Credit Union recognizes these post retirement costs in the period in which the employees render their services. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of retirement ages of employees, employee turnover and expected health care costs. Gains or losses arising from actuarial assessments are recognized immediately in net income under salaries and employee benefits. The most recent actuarial valuation of the obligation was performed as at October 1, 2010.

n) Accounts Payable and Other Payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value and subsequently carried at amortized cost using the effective interest rate method.

o) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

p) Members' Shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments.

q) Revenue Recognition

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

r) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in net income.

s) Business Combinations

The financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

2. Significant Accounting Policies (continued)

t) Standards, Amendments and Interpretations Not Yet Effective

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

i. New standards, interpretations and amendments effective from January 1, 2012

None of the new standards, interpretations and amendments, effective for the first time from January 1, 2012 have had a material effect on the financial statements.

ii. New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which have not been applied in these financial statements, that will or may have an effect on the Credit Union's future financial statements are:

- IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Credit Union is in the process of evaluating the impact of the new standard.
- IFRS 13 Fair Value Measurement defines fair value, provides guidance on the measurement of fair value, and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.
- IAS 1 Presentation of Financial Statements was amended to change the grouping of items presented in OCI. Items that would be reclassified to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods. The Credit Union has yet to assess the full impact of this amendment to IAS 1 and will adopt the standard for the annual period beginning on January 1, 2013.
- IAS 19 Employee Benefits was amended to remove the use of the corridor approach for defined benefit plans and for enhanced disclosures for defined benefit plans. Revisions were also made to the recognition of termination benefits and the distinction between short-term and long term employee benefits. The Credit Union has yet to assess the full impact of this amendment to IAS 1 and will adopt the standard for the annual period beginning on January 1, 2013.

2. Significant Accounting Policies (continued)

t) Standards, Amendments and Interpretations Not Yet Effective (continued)

- IAS 32 Financial Instruments: Presentation was amended to clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The Credit Union has yet to assess the full impact of this amendment and will adopt the standard for the annual period beginning on January 1, 2014.

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

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Credit Union's future financial statements.

3. Critical Accounting Estimates and Judgments

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

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

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Fair Value of Financial Instruments

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

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 19.

b) Mortgage Securitizations and Transfers

In determining whether mortgages form part of a securitization or transfer agreements are recognized in their entirety or derecognized in their entirety, the Credit Union makes judgment on whether the risks and rewards have been substantially transferred to the transferee as part of the agreement. The treatment of mortgages recognized and mortgages derecognized is described in Note 2h.

3. Critical Accounting Estimates and Judgments (continued)

c) Member Loan Loss Provision

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

In determining the collective loan loss provision management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 9.

d) Income Taxes

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

4. Business Combination

On March 31, 2012 the Credit Union amalgamated with Unity Savings and Credit Union Limited (Unity Savings). Unity Savings' business activities focused on providing financial services for its members. The members of Unity Savings were issued cash, membership shares, and Class A Investment shares of the Credit Union as consideration for their membership shares and Class B shares in Unity Savings.

The additional resources and expanded membership base that the Credit Union acquired through this amalgamation resulted in significant growth for the Credit Union. Increased economies of scale are expected to add to the Credit Union's profitability, and facilitate continued investment in products, services, technology, and staff. The amalgamation has expanded the Credit Union's presence in markets not previously serviced by the Credit Union, which allows members access to more branches, and allows the Credit Union to deliver financial services to more residents of Ontario.

Fair Value of Assets Acquired and Liabilities Assumed at the Date of Amalgamation

Details of the fair value of identifiable assets and liabilities assumed on amalgamation are as follows:

(thousands of Canadian dollars)	Unity Savings Book Value	Adjustment	Fair Value
Cash	$ 10,085	$ -	$ 10,085
Investments	10,685	90	10,775
Member loans	146,121	(3,957)	142,164
Property and equipment	1,127	494	1,621
Other assets	311	-	311
Member deposits	(157,171)	-	(157,171)
Accounts payable	(884)	-	(884)
Total net assets	$ 10,274	$ (3,373)	$ 6,901

4. Business Combination (continued)

Fair Value of Consideration Paid (continued)

Member loans includes $146,121,479 of contractual amounts receivable. While the Credit Union will make every effort to collect all contractual loans, it considers it unlikely that $3,956,947 from the commercial loan portfolio transferred will ultimately be collected.

Fair Value of Consideration Paid

Under the terms of the amalgamation agreement, the Credit Union issued member shares to 11,523 previous members of Unity Savings at the standard share price of $5 per share. Members from Unity Savings were required to purchase 5 member shares , subject to certain exemptions, to a total of $25 in member shares. If any previous members of Unity Savings had a higher balance in their member shares accounts, the Credit Union refunded that balance to each member until $25 remained in their member share account. The Credit Union also gave Class A Investment shares in the amalgamated credit union to the previous members of Unity Savings equal to their investment of Class B shares in Unity Savings.

A summary of the components of the consideration transferred is as follows:

(thousands of Canadian dollars)

Member share balances refunded	$ 768
Member shares issued	304
Fair value of Class A Investment shares	3,434
Fair value of consideration transferred	$ 4,506

Acquisition-related costs amounting to $1,122,794 have been excluded from the consideration transferred and have been recognized as a reduction in the gain on amalgamation, recorded on the Statement of Comprehensive Income.

Net Cash Inflow on Amalgamation

(thousands of Canadian dollars)

Cash and cash equivalent balances acquired	$ 10,085
Less:	
Member share balances refunded	(768)
Costs paid on amalgamation	(1,122)
Net cash inflow on acquisition	$ 8,195

Gain on Amalgamation

As a result of the amalgamation, the Credit Union recognized a gain of $1,272,914 as the fair values of the assets acquired exceeded the fair values of the liabilities assumed. This gain is included on the Statement of Comprehensive Income. A gain occurred on the amalgamation as Unity Savings had significant cash and investments on hand, as well as higher levels of assets due to its high levels of reserves.

4. Business Combination (continued)

Impact of Amalgamation on the Results of the Credit Union

From the date of amalgamation to the period end date of December 31, 2012, Unity Savings has contributed $6,856,481 to revenue and $442,000 to net income. If both credit unions had amalgamated at the beginning of the 15 month period, Unity would have contributed $11,687,745 to revenue and $681,000 to net income.

As a result of this amalgamation, the Credit Union is required to adopt a December 31 year end in accordance with the Credit Unions and Caisses Populaires Act, 1994. As a result of this change, the Credit Union has chosen to present a 15 month period in the financial statements and, therefore, the financial information for the prior years being presented will not be entirely comparable.

5. Cash and Cash Equivalents

The Credit Union's current accounts are held with Central 1. The yield on the accounts at December 31, 2012 is 1.40% (September 30, 2011 - 1.40%).

6. Investments

Liquidity Deposits

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at 6% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity deposits are short term and come due within three years. They bear interest at rates ranging between 1.10% and 2.18%. The carrying amounts approximate fair value due to having similar characteristics as cash and cash equivalents.

Other Investments

Other investments are comprised of the following instruments:

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
Central 1 Credit Union Limited			
- Class A membership shares	$ 3,044	$ 1,585	$ 1,399
- Class E membership shares	3,191	2,497	2,497
CUCO Co-operative Association			
- Class A membership shares	-	16	15
- Class B investment shares	3,770	2,496	-
ABCP 2008 Limited Partnership	-	-	2,403
Co-operators General Insurance	11	11	11
Credential Securities Inc., Debenture	5	5	5
Concentra Financial	7	1	1
	$ 10,028	$ 6,611	$ 6,331

6. Investments (continued)

Other Investments (continued)

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares were issued to Ontario Credit Unions as part of the combination agreement between CUCO and CUCBC with a par value and are redeemable at the option of Central 1. There is no separately quoted market value for these shares and the fair value could not be measured reliably. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

On August 17, 2011 Credit Union Central of Ontario Limited (CUCO) discontinued as a regulated financial institution and continued as a co-operative known as CUCO Cooperative Association (CUCO Co-op). On August 31, 2011 CUCO Co-op purchased the investment portfolio of long term notes from ABCP LP in exchange for Class B investment shares which were distributed to the ABCP LP unit holders. The Credit Union received 908,029,893 Class B investment shares. On October 24, 2011 the Board of ABCP LP approved a resolution to dissolve the limited partnership as it had ceased operations and disposed of all assets.

The merger with Unity Savings and Credit Union on March 31, 2012 increased the holdings of Class B investment shares by 252,800,316 for a total of 1,160,830,209 shares.

At December 31, 2012 CUCO Co-operative provided an estimate of fair value of this investment at \$3,769,959, an increase in value of \$848,498 in the fiscal year.

7. Derivative Financial Instruments

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities. The tables below provide an overview of the Credit Union's derivative portfolio.

(thousands of Canadian dollars)

	Maturities of Derivatives (Notional Amounts)			December 31, 2012 Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swaps:					
Receive fixed	$ 50,000	$ -	$ 50,000	$ 517	$ -
Pay fixed	1,384	35,651	37,035	-	888
Foreign exchange	5,000	-	5,000	85	-
Index-linked options	-	4,354	4,354	90	90
Total	$ 56,384	$ 40,005	$ 96,389	$ 692	$ 978

	Maturities of Derivatives (Notional Amounts)			September 30, 2011 Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swaps:					
Receive fixed	$ 80,000	$ 50,000	$ 130,000	$ 1,534	$ -
Pay fixed	20,000	42,051	62,051	-	1,896
Index-linked options	-	4,354	4,354	160	160
Total	$ 100,000	$ 96,405	$ 196,405	$ 1,694	$ 2,056

	Maturities of Derivatives (Notional Amounts)			October 1, 2010 Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
Interest rate swaps:					
Receive fixed	$ 25,000	$ 80,000	$ 105,000	$ 755	$ -
Pay fixed	10,000	56,218	66,218	-	913
Index-linked options	-	3,348	3,348	253	253
Total	$ 35,000	$ 139,566	$ 174,566	$ 1,008	$ 1,166

7. Derivative Financial Instruments (continued)

Interest Rate Swaps

The Credit Union has entered into 1 (September 30, 2011 - 5, October 1, 2010 - 6) receive fixed interest rate swap contract with Central 1 to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2012, the Credit Union had entered into an interest rate swap contract for a total of $50,000,000 of notional principal whereby it has agreed to pay at variable interest rates based on Banker's Acceptance rates for one month and receive at fixed interest rates. The swap contract has a fixed interest rate of 2.318% and will mature in January 2013.

As at December 31, 2012, the Credit Union had entered into 6 (September 30, 2011 - 8, October 1, 2010 - 8) pay fixed interest rate swap contracts for a total of $37,035,123 of notional principal whereby it has agreed to pay at fixed interest rates and receive based on Banker's Acceptance rates for one month. These swap contracts have fixed interest rates ranging from 2.105% to 3.035% and will mature from December 2013 to June 2016.

The agreements are secured by a general security agreement covering all assets of the Credit Union.

Foreign Exchange Swaps

The Credit Union uses foreign exchange derivative instruments as a hedge to manage interest rate risk. These derivatives consist of US dollar swap transactions which are simultaneous sell/buy and buy/sell of an identical amount of US dollars over two different days at an agreed exchange rate. Board policy governs the amount and term of these instruments.

Equity Index-Linked Deposits

The Credit Union has outstanding $4,351,359 (September 30, 2011 - $4,353,626, October 1, 2010 - $3,347,742) in index linked term deposits to its members. The Index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of $90,423 (September 30, 2011 - $159,957, October 1, 2010 - $252,502).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each Index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2012, the Credit Union had entered into such contracts on index linked term deposits for a total of $4,353,626. The agreements are secured by a general security agreement covering all assets of the Credit Union.

8. Member Loans

(thousands of Canadian dollars)	December 31 201	September 30 2011	October 1 2010
Residential mortgages	$ 490,316	$ 348,602	$ 308,324
Personal Loans	140,135	114,175	104,976
Commercial loans	233,436	190,175	174,605
	$ 863,887	$ 652,952	$ 587,905
Accrued interest receivable	1,622	979	1,002
Allowance for impaired loans (Note 9)	(7,003)	(3,081)	(2,880)
Net loans to members	$ 858,506	$ 650,850	$ 586,027

Terms and Conditions

Member loans can have either a variable or fixed rate of interest and mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.25% to prime plus 12.50%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2012 was 4.00%.

The interest rate offered on fixed rate loans being advanced at December 31, 2012 ranges from 2.35% to 16.50%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non-real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

8. Member Loans (continued)

Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

(thousands of Canadian dollars)	December 31, 2012		September 30, 2011		October 1, 2010	
	Principal	Yield (%)	Principal	Yield (%)	Principal	Yield (%)
Variable Rate	$ 264,344	5.47	$ 199,022	5.75	$ 189,793	5.66
Fixed rate due less than one year	126,632	5.23	72,407	5.43	52,746	5.57
Fixed rate due between one and five years	472,911	4.82	381,523	5.38	345,366	5.46
	$ 863,887		$ 652,952		$ 587,905	

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

(thousands of Canadian dollars)	December 31 2012	September 30 2011
Unsecured loans	$ 140,170	$ 132,336
Loans secured by cash, member deposits	402	121
Loans secured by real property	557,069	381,949
Residential mortgages insured by third party	12,270	12,000
Residential mortgages insured by government	153,976	126,546
	$ 863,887	$ 652,952

Concentration of Risk

There are no Individual or related groups of members loans which exceed 10% of members' equity.

Fair Value

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
Residential mortgages	$ 473,520	$ 336,898	$ 300,805
Personal loans	163,178	139,513	129,325
Commercial loans	227,915	183,016	168,615
	$ 864,613	$ 659,427	$ 598,745

9. Allowance for Impaired Loans

Total allowance for impaired loan provision comprises:

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
Collective provision	$ 3,587	$ 1,166	$ 1,265
Individual specific provision	3,416	1,915	1,615
Total provision	$ 7,003	$ 3,081	$ 2,880

Movement in individual specific provision and collective provision for impairment:

(thousands of Canadian dollars)	**Personal Loans**	**Residential Mortgages**	**Commercial Loans**	**Total**
December 31, 2012				
Balance as at October 1, 2011	$ 1,670	$ 170	$ 1,241	$ 3,081
Recoveries	156	-	-	156
Loan loss expense	540	343	87	970
Allowance for loans transferred on amalgamation (Note 4)	539	-	4,324	4,863
	2,905	513	5,652	$ 9,070
Write-offs	(838)	(181)	(1,048)	(2,067)
Balance as at December 31, 2012	$ 2,067	$ 332	$ 4,604	$ 7,003
Principal balance of impaired loans	$ 1,727	$ 5,980	$ 8,009	$ 15,716
September 30, 2011				
Balance as at October 1, 2010	$ 1,683	$ 110	$ 1,087	$ 2,880
Recoveries	72	-	-	72
Loan loss expense	492	65	210	767
	2,247	175	1,297	3,719
Write-offs	(577)	(5)	(56)	(638)
Balance as at September 30, 2011	$ 1,670	$ 170	$ 1,241	$ 3,081
Principal balance of impaired loans	$ 2,412	$ 4,940	$ 2,345	$ 9,697

9. Allowance for Impaired Loans (continued)

(thousands of Canadian dollars)

	December 31, 2012 Carrying Value	December 31, 2012 Individual Specific Provision	September 30, 2011 Carrying Value	September 30, 2011 Individual Specific Provision	October 1, 2010 Carrying Value	October 1, 2010 Individual Specific Provision
Period of delinquency						
Less than 90 Days	$ 2,232	$ 243	$ 1,939	$ 228	$ 2,133	$ 96
Over 90 Days	7,244	1,376	4,425	1,282	2,503	1,141
Total loans in arrears	9,476	1,619	6,364	1,510	4,636	1,237
Total loans not in arrears	6,240	1,797	3,333	406	2,128	378
Total loans	$ 15,716	$ 3,416	$ 9,697	$ 1,916	$ 6,764	$ 1,615

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, business losses, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. For purposes of calculating the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2012

10. Property and Equipment

(thousands of Canadian dollars)

Cost	**Land and Parking Lots**	**Buildings**	**Equipment**	**Leasehold Improvements**	**Member Files**	**Total**
Balance at October 1, 2010	$ 1,157	$ 3,864	$ 6,665	$ 2,330	$ 1,369	$ 15,385
Additions	-	187	442	34	-	663
Disposals	(48)	(23)	(1,961)	(241)	-	(2,273)
Balance on September 30, 2011	$ 1,109	$ 4,028	$ 5,146	$ 2,123	$ 1,369	$ 13,775
Additions	1,538	4,716	1,658	1,030	-	8,942
Disposals	-	-	(64)	-	-	(64)
Balance on December 31, 2012	**$ 2,647**	**$ 8,744**	**$ 6,740**	**$ 3,153**	**$ 1,369**	**$ 22,653**
Accumulated Depreciation						
Balance at October 1, 2010	$ 50	$ 2,309	$ 5,522	$ 1,226	$ 1,340	$ 10,447
Depreciation Expense	-	180	473	193	16	862
Disposals	(48)	(24)	(1,961)	(241)	-	(2,274)
Balance on September 30, 2011	2	2,465	4,034	1,178	1,356	9,035
Depreciation Expense	5	266	796	463	13	1,543
Disposals	-	-	(43)	-	-	(43)
Balance on December 31, 2012	**$ 7**	**$ 2,731**	**$ 4,787**	**$ 1,641**	**$ 1,369**	**$ 10,535**
Net Book Value						
October 1, 2010	**$ 1,107**	**$ 1,555**	**$ 1,143**	**$ 1,104**	**$ 29**	**$ 4,938**
September 30, 2011	**$ 1,107**	**$ 1,563**	**$ 1,112**	**$ 945**	**$ 13**	**$ 4,740**
December 31, 2012	**$ 2,640**	**$ 6,013**	**$ 1,953**	**$ 1,512**	**$ -**	**$ 12,118**

11. Other Assets

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
Interest receivable	$ 391	$ 278	$ 341
Deferred income taxes (Note 14)	2,117	1,482	1,146
Software under development	1,910	589	-
Residual interest in securitized mortgages	627	1,797	2,172
Other assets	3,223	2,826	1,127
	$ 8,268	$ 6,972	$ 4,786

12. Member Deposits

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
Chequing accounts	$ 135,585	$ 122,614	$ 116,761
Demand savings accounts	103,706	51,292	46,740
Term deposits	326,372	269,340	252,299
Registered savings plans	142,214	105,337	99,624
Registered retirement income funds	36,875	24,161	21,125
Tax free savings account	48,345	24,119	14,393
	793,097	596,863	550,942
Accrued interest on member deposits	9,004	8,049	6,893
	$ 802,101	$ 604,912	$ 557,835

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.50% at December 31, 2012.

Demand savings accounts are due on demand and bear interest at a variable rate up to 0.75% at December 31, 2012. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits on December 31, 2012 range from 0.50% to 2.35%.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at a rate of 0.25% at December 31, 2012.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in chequing deposits is an amount of $8,349,453 denominated in US dollars.

12. Member Deposits (continued)

Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

(thousands of Canadian dollars)	December 31, 2012 Principal	Yield (%)	September 30, 2011 Principal	Yield (%)	October 1, 2010 Principal	Yield (%)
Variable rate	$ 255,443	0.49	$ 176,725	0.43	166,184	0.43
Fixed rate due less than one year	307,931	2.13	213,703	2.14	202,512	2.02
Fixed rate due between one and five years	229,723	2.73	206,435	3.24	182,246	3.36
	$ 793,097		$ 596,863		$ 550,942	

Fair Value

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

(thousands of Canadian dollars)	December 31 2012	September 30 2011	October 1 2010
Chequing and demand savings accounts	255,443	176,725	163,363
Term deposits	322,875	272,373	255,882
Registered plans	208,313	155,998	134,340
	$ 786,631	$ 605,096	$ 553,585

Concentration of Risk

The Credit Union does not have exposure to groupings of individual deposits that exceed 10% of member deposits which concentrate risk and create exposure to particular segments.

13. Employee Future Benefits

Defined Contribution Pension Plan

The Credit Union sponsors a defined contribution pension plan. Contributions to the plan during the 15 month period ended December 31, 2012 were $740,864 (year ended September 30, 2011 - $429,434).

Defined Benefit Post-Retirement Non-Pension Plan

The Credit Union pays certain post retirement benefits of its retired employees. The Credit Union recognizes these post retirement costs in the period in which the employees render the services. The accrued benefit obligation at December 31, 2012 of $4,387,636 (September 30, 2011 - $4,054,776) and the net periodic benefit cost for the year ending December 31, 2012 was determined by actuarial valuation using a discount rate of 4.75% (September 30, 2011 - 4.75%).

13. Employee Future Benefits (continued)

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

(thousands of Canadian dollars)	December 31 2012	September 30 2011
Accrued benefit obligation		
Balance at the beginning of the period	$ 4,055	$ 3,576
Service cost for the period	204	335
Interest cost for the period	197	185
Benefits cost for the period	(68)	(41)
Accrued liability	$ 4,388	$ 4,055
Components of net periodic benefit cost		
Service cost for the period	$ 204	$ 335
Interest cost for the period	197	185
Net periodic benefit cost	$ 401	$ 520

The main actuarial assumptions employed for the valuations are as follows:

General Inflation (CPI rate)	2.00%
Interest (discount) rate	4.75%

Medical costs were assumed to increase at the CPI rate plus a further increase of 5.63% in 2012, decreasing by 0.37% each year until reaching the CPI rate plus 3.0% in 2020 and thereafter.

Dental costs were assumed to increase at the CPI rate plus 3.0% in 2012 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2012:

	Increase	Decrease
Total of service and interest cost	$ 72,000	$ (55,000)
Accrued benefit obligation	$ 778,000	$ (624,000)

14. Income Taxes

The effects of temporary differences, which give rise to the deferred income tax assets reported in other assets on the balance sheet, are as follows:

(thousands of Canadian dollars)	Balance as at September 30 2011	Recognized in Net Income	Balance as at December 31 2012
Employee future benefits	$ 900	$ 43	943
Allowance for impaired loans	351	522	873
Property and equipment	184	32	216
Other	47	38	85
	$ 1,482	$ 635	2,117

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

(thousands of Canadian dollars)	December 31 2012	September 30 2011
Income before income taxes	$ 8,031	$ 4,897
Statutory income tax rate	26.72%	28.75%
Expected income tax expense	2,146	1,408
Increase (decrease) in taxes resulting from:		
Available credit union small business deduction	(906)	(713)
Non-taxable amalgamation income	(340)	-
Non-deductible expenses and other reconciling items	(144)	(111)
Income tax expense	$ 756	$ 584

The income tax expense consists of the following:

(thousands of Canadian dollars)	December 31 2012	September 30 2011
Current provision	$ 1,391	$ 919
Deferred provision	(635)	(335)
	$ 756	$ 584

15. Members' Shares

(thousands of Canadian dollars)

	December 31, 2012		September 30, 2011		October 1, 2010	
	Equity	Liability	Equity	Liability	Equity	Liability
Membership Shares	$ -	$ 1,137	$ -	$ 866	$ -	$ 845
Class A Investment Shares	25,830	-	12,495	-	12,495	-
Class B Affinity Shares	7,368	-	5,746	-	3,757	-
	$ 33,198	$ 1,137	$ 18,241	$ 866	$ 16,252	$ 845

Terms and Conditions

Membership Shares
The credit union is authorized to issue an unlimited number of membership shares. As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold 5 member shares with a par value of $5 per share, with the exception of members under 18 years old who are only required to hold 1 member share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any dividends on these shares.

Class A Investment Shares
The Credit Union is authorized to issue an unlimited number of Class A Investment shares, in series, with rights, privileges, restrictions and conditions to be determined by the Board of Directors, subject to statutory restrictions. The Class A Series 1 shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors after five years, subject to a maximum of 10% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any distributions on these shares. Class A shares that are available for redemption are classified as Tier 2 capital. During the 15 month period ending December 31, 2012, the Credit Union issued 13,335,413 Class A Investment shares.

15. Members' Shares (continued)

Class B Affinity Shares

The Credit Union is authorized to issue an unlimited number of Non-Cumulative Redeemable Non-Voting Non-Participating Class B Affinity shares. The Class B shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the sole and absolute discretion of the Board of Directors on a date commencing five years after the issue date, subject to a maximum of 10% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any distributions on these shares. On March 19, 2012 the Credit Union issued 1,683,609 Class B Series 2 Affinity Shares. No Class B shares are available for redemption as of December 31, 2012.

Distributions to Members

Dividends recorded to Members' Equity are as follows:

(thousands of Canadian dollars)	December 31 2012	September 30 2011
Dividends on Class A shares	$ 1,883	$ 887
Dividends on Class B Affinity shares	678	225
Less related income taxes	(698)	(354)
	$ 1,863	$ 758

In addition to the amounts paid above, the Credit Union recorded patronage allocations of $1,723,996 (September 30, 2011 - $2,069,563). These are recorded as an expense on the Statement of Comprehensive Income.

16. Other Expenses

(thousands of Canadian dollars)	15 month period ended December 31 2012	Year ended September 30 2011
Other supplies and postage	$ 793	$ 473
Equipment costs	543	336
Central dues & regulatory assessments	145	118
Amortization of member files	13	16
Savings and loan life insurance	132	59
Education and staff development	991	609
Bonding insurance	268	238
Professional services	468	256
Collection costs	117	82
Telephone	200	128
Miscellaneous	297	111
Central annual meeting	7	2
	$ 3,974	$ 2,428

17. Related Party Transactions

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

(thousands of Canadian dollars)	15 month period ended December 31 201	Year ended September 30 2011
Compensation:		
Salaries, and other short-term employee benefits	$ 1,627	$ 1,054

(thousands of Canadian dollars)	December 31 201	September 30 2011
Loans to key management personnel:		
Aggregate value of loans advanced	$ 943	$ 621
Interest received on loans advanced	50	52
Total value of lines of credit advanced	48	21
Unused value of lines of credit	53	31

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

(thousands of Canadian dollars)	December 31 201	September 30 2011
Deposits from key management personnel:		
Aggregate value of term and savings deposits	$ 1,323	$ 1,013
Total interest paid on term and savings deposits	57	34

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

17. Related Party Transactions (continued)

Regulatory Reporting

a) Remuneration of Officers and Employees

The Credit Unions and Caisses Populaires Act, 1994, requires credit unions to disclose remuneration paid during the year to the officers and employees of a credit union whose total remuneration for the year exceeded $150,000. If there are more than five officers and employees of a credit union whose total remuneration for the year was over $150,000, the five officers and employees with the highest total remuneration for the year are disclosed. The table below provides this information for the 2012 calendar year:

	Total Salary	Monetary Value of Benefits
Robert Wellstood, CEO	$ 250,896	$ 11,910
Julian Sellers, CFO	$ 182,172	$ 11,910
Stuart Forsyth, VP, Retail Delivery	$ 151,836	$ 10,577

b) Restricted Party Loans

The Credit Union has enacted a policy requiring disclosure and Board approval of all restricted party transactions. Restricted parties have been defined in the policy to include anyone who is, or has been within the preceding twelve months, a Director or Officer of the Credit Union, their spouse or relatives residing within the same house. The Credit Unions and Caisses Populaires Act, 1994, provides a broader definition of restricted parties which includes all relatives of Directors and Officers. There was 1 loan advanced to restricted parties as defined by policy during the year, and there are 24 loans outstanding to such parties with an aggregate value of $1,572,790 at December 31, 2012.

c) Other Statutory Information

Pursuant to the requirements of the Credit Unions and Caisses Populaires Act, 1994, the following information is provided:

(thousands of Canadian dollars)	15 month period ended December 31 2012	Year ended September 30 2011
Director remuneration paid	$ 173	$ 110
Deposit insurance premium paid	$ 804	$ 462

18. Statement of Cash Flows

The following amounts are included in the cash provided by operations:

(thousands of Canadian dollars)	15 month period ended December 31 2012	Year ended September 30 2011
Interest received on loans to members	$ 47,690	$ 33,059
Interest paid on member deposits	$ 15,724	$ 9,571

19. Financial Instrument Classification

The carrying amount of the Credit Union's financial instruments by classification is as follows:

(thousands of Canadian dollars)	Fair Value through Profit or Loss	Cash Flow Hedges	Available for Sale	Loans and Receivables and Other Financial Liabilities	Total
December 31, 2012					
Cash resources	$ -	$ -	$ -	$ 19,173	$ 19,173
Liquidity deposits	-	-	-	57,144	57,144
Investments	3,770	-	6,258	-	10,028
Loans to members	-	-	-	858,506	858,506
Derivative financial instruments	-	692	-	-	692
Term loans	-	-	-	(39,000)	(39,000)
Member deposits	-	-	-	(802,101)	(802,101)
Accounts payable and accrued liabilities	-	-	-	(4,037)	(4,037)
Employee future benefits	-	-	-	(4,388)	(4,388)
Derivative financial instruments	-	(978)	-	-	(978)
Members' shares	-	-	-	(1,137)	(1,137)
	$ 3,770	$ (286)	$ 6,258	$ 84,160	$ 93,902
September 30, 2011					
Cash resources	$ -	$ -	$ -	$ 16,811	$ 16,811
Liquidity deposits	-	-	-	40,771	40,771
Investments	2,496	-	4,115	-	6,611
Loans to members	-	-	-	650,850	650,850
Derivative financial instruments	-	1,694	-	-	1,694
Term loans	-	-	-	(25,000)	(25,000)
Member deposits	-	-	-	(604,912)	(604,912)
Accounts payable and accrued liabilities	-	-	-	(5,263)	(5,263)
Employee future benefits	-	-	-	(4,055)	(4,055)
Derivative financial instruments	-	(2,056)	-	-	(2,056)
Members' shares	-	-	-	(866)	(866)
	$ 2,496	$ (362)	$ 4,115	$ 68,336	$ 74,585

19. Financial Instrument Classification (continued)

(thousands of Canadian dollars)	Fair Value through Profit or Loss	Cash Flow Hedges	Available for Sale	Loans and Receivables and Other Financial Liabilities	Total
October 1, 2010					
Cash resources	$ -	$ -	$ -	$ 18,570	$ 18,570
Liquidity deposits	-	-	-	45,939	45,939
Investments	2,403	-	3,928	-	6,331
Loans to members	-	-	-	586,027	586,027
Derivative financial instruments	-	1,008	-	-	1,008
Term loans	-	-	-	(53,000)	(53,000)
Member deposits	-	-	-	(557,835)	(557,835)
Accounts payable and accrued liabilities	-	-	-	(4,628)	(4,628)
Employee future benefits	-	-	-	(3,576)	(3,576)
Derivative financial instruments	-	(1,166)	-	-	(1,166)
Members' shares	-	-	-	(845)	(845)
	$ 2,403	$ (158)	$ 3,928	$ 30,652	$ 36,825

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities using the last bid price;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

At December 31, 2012 an independent valuation was completed on the underlying investments of the CUCO Class B shares utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the balance sheet date. The key assumption used in the valuation is the credit rating of investments. Investments held by CUCO are valued based on average indicative bid prices from a survey of market dealers at year end.

19. Financial Instrument Classification (continued)

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

(thousands of Canadian dollars)	Level 1	Level 2	Level 3	Total
December 31, 2012				
Index linked term deposits	**$ -**	**$ 4,351**	**$ -**	**$ 4,351**
Central 1 Credit Union interest rate swap contracts	**-**	**(286)**	**-**	**(286)**
Central 1 Credit Union Limited	**-**	**3,044**	**-**	**3,044**
CUCO Co-operative Association	**-**	**-**	**3,770**	**3,770**
	$ -	**$ 7,109**	**$ 3,770**	**$ 10,879**
September 30, 2011				
Index linked term deposits	$ -	$ 4,354	$ -	$ 4,354
Central 1 Credit Union interest rate swap contracts	-	(362)	-	(362)
Central 1 Credit Union Limited	-	1,585	-	1,585
CUCO Cooperative Association	-	-	2,511	2,511
	$ -	$ 5,577	$ 2,511	$ 8,088
October 1, 2010				
Index linked term deposits	$ -	$ 3,348	$ -	$ 3,348
Central 1 Credit Union interest rate swap contracts	-	(158)	-	(158)
Central 1 Credit Union Limited	-	1,399	-	1,399
CUCO Cooperative Association	-	-	15	15
ABCP 2008 LP	-	-	2,403	2,403
	$ -	$ 4,589	$ 2,418	$ 7,007

There were no transfers between Level 1 and level 2 for the 15 month period ended December 31, 2012 and the year ended September 30, 2011. The following table presents a reconciliation of equities which are the level 3 investments:

(thousands of Canadian dollars)	December 31 201	September 30 2011
Balance, beginning of the period	$ 2,511	$ 2,418
Gains recognized in net income	570	93
Acquired through amalgamation	689	-
Balance, end of period	$ 3,770	$ 2,511

20. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly reports from the Credit Union's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including schedule of assigned limits;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and bad debts. The Board of Directors also receives an analysis of allowance for doubtful loans quarterly.

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risk of a reduction of the loan to value ratio (LVR) cover should the property market decline. The risk of losses from loans undertaken is primarily reduced by adhering to other lending criteria including a borrower's ability to pay.

20. Financial Instrument Risk Management (continued)

There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk Measurement
The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviour of its members and counterparties.

Objectives, Policies and Procedures
The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The credit union has set a minimum liquidity ratio of 7%.

The Credit Union manages liquidity risk by:

- Continuously monitoring cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal period.

As at December 31, 2012, the position of the Credit Union is as follows:

(thousands of Canadian dollars)	Maximum Exposure
Qualifying liquid assets on hand	
Cash resources	$ 19,173
Liquidity reserve deposit	57,144
	76,317
Total liquidity requirement	60,794
Excess liquidity requirement	$ 15,523

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

20. Financial Instrument Risk Management (continued)

Liquidity Risk (continued)

There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending and on its investment in CUCO Cooperative Association.

The Credit Union manages the interest rate risk within approved limits. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement
The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, Policies and Procedures
The Credit Union's major source of income is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits. The objective of asset and liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management in accordance with the Credit Union's policy. For the 15 month period ended December 31, 2012, the Credit Union was in compliance with this policy.

20. Financial Instrument Risk Management (continued)

Interest Rate Risk (continued)

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity. An adjustment has been made for repayments that may occur prior to maturity based on recent member activity. Amounts that are not interest sensitive have been grouped together, regardless of maturity. The amounts shown are in thousands of dollars.

(thousands of Canadian dollars)

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
Interest sensitive					
< 6 months	$ 388,160	4.91	$ 226,417	1.14	$ 161,743
1 year	84,181	4.95	185,997	0.99	(101,816)
2 years	148,903	4.90	167,582	1.02	(18,679)
3 years	142,568	3.85	138,645	1.46	3,923
4 years	96,794	4.72	83,307	1.16	13,487
5 years	67,859	3.92	66,176	1.06	1,683
Interest sensitive	$ 928,465		$ 868,124		$ 60,341
Non-interest sensitive	$ 37,464		$ 97,805		$ (60,341)
Total	$ 965,929		$ 965,929		$ -

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net income of $242,000 while a decrease in interest rates of 0.5% could result in an increase to net income of $98,000.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

20. Financial Instrument Risk Management (continued)

Currency Risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. The Credit Union limits its foreign currency exposure in accordance with its exchange risk management policy. Foreign currency changes are continually monitored by the asset/liability committee for effectiveness of foreign exchange mitigation activities and holdings.

Risk Measurement
The Credit Union's exposure is measured daily. Measurement of risk exposure is the difference between the United States dollar assets and United States dollar liabilities.

Objectives, Policies and Procedures
The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $500,000 in U.S. funds.

For the 15 month period ended December 31, 2012, the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk.

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Unions portfolio is comprised of shareholdings as outlined in Note 6.

Investments are required to be held in accordance with the Credit Union's agreement with Central 1.

21. Capital Management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Regulatory capital calculated in accordance with the Act shall not be less than 4% of the book value of assets; and
- Regulatory capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

21. Capital Management (continued)

The Credit Union maintains an internal policy that total members' capital as shown on the balance sheet shall not be less than 4.5% of the book value of all assets, and members' capital as shown on the balance sheet shall not be less than 9% of the risk weighted value of its assets and an operational risk requirement.

The Credit Union considers its capital to include membership shares (member shares, Class A Investment shares, Class B Affinity shares), and undivided earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Unions and Caisses Populaires Act of 1994 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2012 was $528,772,130 (September 30, 2011 - $403,016,700).

Total regulatory capital is composed of Tier 1 and Tier 2 Capital as follows:

(thousands of Canadian dollars)	December 31 201	September 30 2011
Tier 1 Capital		
Class A Investment Shares	$ 25,830	$ 12,495
Less: Redeemable Portion of Class A Shares	(1,609)	(1,267)
Class B Affinity Shares	7,368	5,746
Membership Shares	1,137	866
Contributed Surplus	258	230
Retained Earnings	39,319	33,880
Total Tier 1 Capital	72,303	51,950
Tier 2 Capital		
Redeemable portion of Class A Shares	1,609	1,267
Collective Loan Loss Provision	3,587	1,166
Accumulated other comprehensive income	(530)	(538)
Total Tier 2 Capital	4,666	1,895
Total regulatory capital	$ 76,969	$ 53,845

The applicable capital ratios are as follows:

Tier 1 Capital to Risk Weighted Assets	13.67%	12.89%
Total Regulatory Capital to Risk Weighted Assets	14.56%	13.36%
Total Regulatory Capital to Total Assets	7.97%	7.39%

22. Commitments

a) Credit Facilities

The Credit Union has a committed line of credit and term loan facilities with Central 1 Credit Union Limited totaling $65,750,000. As of December 31, 2012 the Credit Union had unused credit facilities totaling $26,061,433. The authorized lines of credit bear interest at 1.77%. Security given is an assignment of loans receivable and a general security agreement covering all assets of the Credit Union.

b) Loan Commitments

At December 31, 2012, the Credit Union is committed to advance approximately $2,223,634 on mortgage loans and $13,735,896 on commercial loans. In addition, lines of credit which had been approved but not used at year-end totaled approximately $117,837,896.

c) Lease Agreements

The Credit Union has entered into lease agreements for branch offices. Rental payments for these branches for the 15 month period ended December 31, 2012 totaled $1,731,680, which is included in occupancy expense on the Statement of Comprehensive Income.

The minimum future payments in each of the next five years are as follows:

(thousands of Canadian dollars)

2013	$ 1,440
2014	1,412
2015	1,040
2016	788
2017	435
Thereafter	907
	$ 6,022

d) Contingencies

The nature of the Credit Union's activities are such that there may be litigation pending or in progress at any time. With respect to claims at December 31, 2012 management believes the Credit Union has valid defences and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Credit Union's financial position.

23. Subsequent Events

On January 16, 2013, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 5% on the Class A Investment Shares for the period October 1st to December 31st, payable to the shareholders of record at December 31, 2012. The amount of the dividend will be $328,796, with a corresponding tax saving of $72,000.

On January 16, 2013, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 4.5% on the Class B Affinity Shares for the period October 1st to December 31st, payable to the shareholders of record at December 31, 2012. The amount of the dividend will be $83,573, with a corresponding tax saving of $18,000.

24. Mortgage Securitizations and Transfers

During the year the Credit Union securitized residential mortgages of $13,948,755 (September 30, 2011 - $37,897,859). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities.

In accordance with the Credit Union's accounting policy the transferred financial assets continue either to be recognized in their entirety or to the extent of the continuing involvement, are derecognized in their entirety.

Transferred Financial Assets that are recognized in their entirety
The table below sets out the carrying amounts and fair values related to transferred loans to members that are recognized in their entirety and any associated liabilities. All loans to members are classified as loans and receivables and are measured at amortized cost in the Statement of Financial Position.

	Loans to Members
Carrying amount of assets	$ 45,668
Carrying amount of associated liabilities	(42,301)
For liabilities with recourse only to the transferred assets	
Fair value of assets	45,668
Fair value of associated liabilities	(42,301)
Net position	$ 3,367

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement

Transferred Financial Assets that are derecognized in their entirety
Transferred financial assets that have been derecognized in their entirety consist of two separate agreements:

- Mortgage securitization agreements entered into before the date of transition to IFRS (October 1, 2010); and
- Mortgage purchase agreement transferred on amalgamation from Unity Savings and Credit Union Limited whereby the transferee provided funding of certain mortgages and the Credit Union administered the mortgages for a servicing fee.

The table below sets out the carrying amounts and fair values of the Credit Union's continuing involvement in the transferred financial assets that are derecognized in their entirety at December 31, 2012.

24. Mortgage Securitizations (continued)

Transferred Financial Assets that are derecognized in their entirety (continued)
(thousands of Canadian dollars)

	Carrying Amount of Continuing Involvement		Fair Value of Continuing Involvement		
Cash outflows to repurchase transferred (derecognized) financial assets	Financial assets at amortized cost	Financial liabilities at amortized cost	Asset	Liability	Maximum exposure to loss
$ 48,903	$ -	$ 2,439	$ 627	$ -	$ -

The Credit Union's maximum exposure to loss has been determined based on the terms of the loan securitization agreements.

Undiscounted cash flows to repurchase transferred loans to members

(thousands of Canadian dollars)

Less than 1 month	1 - 3 months	3 - 12 months	1 - 3 years	More than 3 years	Total
190	-	3,855	44,858	-	$ 48,903

25. First Time Adoption of International Financial Reporting Standards

IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Credit Union has applied IFRS was October 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Credit Union will be December 31, 2012. Therefore, the financial statements for the period-ended December 31, 2012, the comparative information presented in these financial statements for the year-ended September 30, 2011 and the opening IFRS statement of financial position at October 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

In preparing its opening IFRS statement of financial position, the Credit Union has adjusted amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following notes and tables.

IFRS 1 Exemptions and Exceptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

25. First Time Adoption of International Financial Reporting Standards (continued)

IFRS 1 Exemptions and Exceptions (continued)

Optional Exemptions

Business Combinations
The Credit Union has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition
The Credit Union has elected to apply day one fair value gains and losses prospectively from the date of transition to IFRS.

Borrowing Costs
The Credit Union has elected to apply the transitional provisions of IAS 23, Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Employee Future Benefits
The Credit Union has elected to disclose the amounts required by paragraph 120A(p) of IAS 19, which requires the disclosure of the present value of the defined benefit obligation for the current period and each of the previous four reporting periods, on a prospective basis from the Transition Date.

Designation of Previously Recognized Financial Instruments
The Credit Union has elected to designate its investments as outlined in Note 6 at fair value through profit and loss from the Transition Date.

Mandatory Exceptions

Derecognition of Financial Assets and Liabilities
The Credit Union has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the date of transition to IFRS. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the date of transition to IFRS in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39 derecognition requirements.

Estimates
The estimates previously made by the Credit Union under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Credit Union has not used hindsight to revise estimates.

Hedge Accounting
Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Credit Unions financial statements under IFRS.

25. First Time Adoption of International Financial Reporting Standards (continued)

Reconciliation of Equity and Comprehensive Income
In preparing these financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP financial statements to comply with IFRS. The comparative figures for the year ended September 30, 2011 were restated to reflect these adjustments. The following reconciliations and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to IFRS on members' equity, net income and comprehensive income:

Statement of Financial Position for the Year-Ended October 1, 2010 – Transition Date

(thousands of Canadian dollars)	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Cash resources		$ 18,570	$ -	$ 18,570
Liquidity deposits		45,939	-	45,939
Investments	(i)	6,009	322	6,331
Loans to members	(ii)	585,793	234	586,027
Other assets	(iii)	4,408	378	4,786
Property, plant and equipment		4,938	-	4,938
Derivative financial instruments		1,008	-	1,008
		$ 666,665	$ 934	$ 667,599
Liabilities				
Term loans		$ 53,000	$ -	$ 53,000
Members' deposits		557,835	-	557,835
Accounts payable and accrued liabilities	(vii)	4,458	170	4,628
Derivative financial instruments		1,166	-	1,166
Employee future benefits		3,576	-	3,576
Members' shares	(vi)	-	845	845
		620,035	1,015	621,050
Member's Equity				
Class A Investment shares		12,495	-	12,495
Class B Affinity shares		3,757	-	3,757
Membership shares	(vi)	845	(845)	-
Contributed surplus		209	-	209
Retained earnings	(ix)	29,331	764	30,095
Accumulated other comprehensive income		(7)	-	(7)
		$ 46,630	$ (81)	$ 46,549
		$ 666,665	$ 934	$ 667,599

25. First Time Adoption of International Financial Reporting Standards (continued)

Statement of Financial Position for the Year-Ended September 30, 2011

(thousands of Canadian dollars)	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Cash resources		$ 16,811	$ -	$ 16,811
Liquidity deposits		40,771	-	40,771
Investments		6,611	-	6,611
Loans to members	(ii), (iv)	615,901	34,949	650,850
Other assets	(iii), (iv)	6,959	13	6,972
Property, plant and equipment		4,740	-	4,740
Derivative financial instruments		1,694	-	1,694
		$ 693,487	$ 34,962	$ 728,449
Liabilities				
Term loans		$ 25,000	$ -	$ 25,000
Members' deposits		604,912	-	604,912
Accounts payable and accrued liabilities	(vii)	5,247	16	5,263
Securitized loans under administration	(iv)	-	34,714	34,714
Derivative financial instruments		2,056	-	2,056
Employee future benefits	(v)	4,089	(34)	4,055
Members' shares	(vi)	-	866	866
		641,304	35,562	676,866
Member's Equity				
Class A Investment shares		12,495	-	12,495
Class B Affinity shares		5,746	-	5,746
Membership shares	(vi)	866	(866)	-
Contributed surplus		230	-	230
Retained earnings	(ix)	33,384	266	33,650
Accumulated other comprehensive income		(538)	-	(538)
		$ 52,183	$ (600)	$ 51,583
		$ 693,487	$ 34,962	$ 728,449

25. First Time Adoption of International Financial Reporting Standards (continued)

Statement of Comprehensive Income for the Year-Ended September 30, 2011

(thousands of Canadian dollars)	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Financial Revenue				
Interest on loans to members		$ 32,249	$ -	$ 32,249
Investment income		787	-	787
		33,036	-	33,036
Financial Expense				
Interest on deposits		10,726	-	10,726
Interest on borrowings		538	-	538
		11,264	-	11,264
Financial Margin		21,772	-	21,772
Other Income	(iii), (iv)	5,262	(365)	4,897
		27,034	(365)	26,669
Operating Expenses				
Salaries and employee benefits	(v)	11,003	(34)	10,969
Loan loss expense		767	-	767
Occupancy		2,067	-	2,067
Banking costs		741	-	741
Other expenses		2,428	-	2,428
Data costs		1,145	-	1,145
Deposit insurance		462	-	462
Promotion		1,207	-	1,207
Directors' expense		136	-	136
		$ 19,956	$ (34)	$ 19,922
Operating Income		$ 7,078	$ (331)	$ 6,747
Other Items				
Increase in fair value of investments	(i)	541	(322)	219
Patronage shares	(viii)	-	(2,069)	(2,069)
Income before income taxes		7,619	(2,722)	4,897
Income tax expense	(vii)	737	(153)	584
Net Income		$ 6,882	$ (2,569)	$ 4,313
Other comprehensive income (net of tax)				
Change in unrealized gains (losses) on cash flow hedges		(531)	-	(531)
Total comprehensive income for the year		$ 6,351	$ (2,569)	$ 3,782

25. First Time Adoption of International Financial Reporting Standards (continued)

Statement of Cash Flows for the Year-Ended September 30, 2011

The transition to IFRS had no impact on total operating or financing activities on the statement of cash flows. The change in net income for year-ended September 30, 2011 has been offset by adjustments to operating activities.

Explanations for the Adjustments are as follows:

(i) Investments - Reclassification of ABCP LP Investment

Under pre-changeover Canadian GAAP the Credit Union classified the investment in ABCP LP as Available for Sale. Under IFRS the Credit Union reclassified this investment as fair value through profit and loss since the fair value of the investment is provided by CUCO. As a result investments increased by $321,977 at October 1, 2010. Other income as of September 30, 2011 was reduced by $321,977 to reflect this change.

(ii) Member Loans - Allowance for Impaired Loans

Under pre-changeover Canadian GAAP the Credit Union provided for impaired member loans on a specific loan basis along with a general provision. Under IFRS the Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience. As a result the loan impairment provision was reduced by $234,700 at October 1, 2010 (September 30, 2011 - $234,700).

(iii) Member Loans - Transaction Costs

The Credit Union adopted a policy of expensing all transaction costs related to member loans under pre-changeover Canadian GAAP. Since the member loans are classified as loans and receivables, IFRS requires transaction costs to be included in the amount initially recognized. Therefore, except to the extent member loans have been impaired or amortized, the amounts originally expensed should be reflected in the amortized cost of member loans at October 1, 2010 and as such other assets were increased by $377,524. For the year-ended September 30, 2011 other income was reduced by $112,698, and other assets were increased by $490,222.

(iv) Member Loans - Mortgage Securitization

Under pre-changeover Canadian GAAP the Credit Union recorded securitized loans under administration as off-balance sheet. Under IFRS, financial assets only meet the derecognition criteria under IAS 39 when substantially all of the risks and rewards have been transferred to the acquiree. The Credit Union has reviewed its securitization agreements and has determined that they do not meet the derecognition criteria as outlined in IAS 39. However, an amendment under IFRS 1 allows entities to limit adjustments to any securitization agreements entered into after the date of transition, which for the Credit Union is October 1, 2010. Therefore, as of September 30, 2011, loans to members increased by $34,714,699 and securitized loans increased by $34,714,699.

Also as a result of this adjustment, the Credit Union is no longer required to recognize the residual interest on securitization agreements entered into after the Transition Date. For the year-ended September 30, 2011 other income was reduced by $477,240 and other assets were reduced by $477,240.

25. First Time Adoption of International Financial Reporting Standards (continued)

(v) Employee Future Benefits

Under pre-changeover Canadian GAAP the Credit Union used the corridor approach for actuarial gains and losses. Under this approach, any gains or losses on revaluation were amortized over the expected average remaining service lifetime (EARSL). Under IFRS this approach is not permitted per IAS 19. On revaluation, all revaluation gains and losses are recognized immediately in comprehensive income. As a result, the liability for employee future benefits decreased by $33,933 on September 31, 2011 and salaries and employee benefits decreased by $33,933.

(vi) Members' Shares

Under pre-changeover Canadian GAAP the Credit Union recognized all members' shares, including all membership shares, Class A Investment shares, and Class B Affinity shares, as equity. They were initially measured at fair value, including direct and incremental transaction costs and are subsequently measured at amortized cost. Under IFRS the member shares are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. As a result, membership shares are accounted for as a liability based on the requirements of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments.

(vii) Accounts Payable and Accrued Liabilities - Tax Effect

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted (see (i) to (vi) above). There has not been a corresponding change to the tax basis of these assets and liabilities. As a result an adjustment of $170,304 is required to future taxes at October 1, 2010 with a corresponding adjustment to retained earnings. As of September 30, 2011, an adjustment of $154,466 was made to future taxes with corresponding adjustments of $15,838 and $154,466 to retained earnings and accumulated other comprehensive income respectively.

(viii) Patronage share allocations - Class B Affinity Shares

The prior year comparatives have been restated to show the issuance of Class B Affinity shares as an expense on the statement of comprehensive income. In prior years, the Credit Union had incorrectly shown these distributions as a direct charge in members' equity. Under pre-changeover GAAP these allocations must be shown as a charge to income as the calculation of shares issued is based on member activity and not on share ownership in the credit union. This presentation is also required on transition to IFRS. There is no change to ending retained earnings as a result of this correction.

(ix) Retained Earnings

The following table outlines the adjustments to retained earnings:

	September 30 2011	October 1 2010
Investments - Reclassification of ABCP LP Investment (i)	$ -	$ 321,977
Member Loans - Allowance for Impaired Loans (ii)	234,700	234,700
Member Loans - Transaction Costs (iii)	490,222	377,524
Member Loans - Mortgage Securitization (iv)	(477,240)	-
Employee Future Benefits (v)	33,933	-
Accounts Payable and Accrued Liabilities - Tax Effect (vii)	(15,838)	(170,304)
	$ 265,777	$ 763,897