



CONSOLIDATED FINANCIAL STATEMENTS

Credit Union Atlantic Limited
December 31, 2009

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AUDITORS' REPORT

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To the members of Credit Union Atlantic Limited

We have audited the consolidated balance sheet of **Credit Union Atlantic Limited** (the "Credit Union") at December 31, 2009 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Nova Scotia
February 17, 2010

Chartered Accountants

CREDIT UNION ATLANTIC LIMITED
CONSOLIDATED STATEMENTS OF EARNINGS
AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31	2009	2008
Financial revenue		
Loan interest	\$ 13,747,724	\$ 13,349,266
Investment income	<u>635,226</u>	<u>882,241</u>
	<u>14,382,950</u>	<u>14,231,507</u>
Financial expense		
Distribution to members		
Interest on deposits	4,446,265	5,667,182
Loan interest	68,987	82,402
Finders fees	<u>224,368</u>	<u>176,861</u>
	<u>4,739,620</u>	<u>5,926,445</u>
Gross financial margin	<u>9,643,330</u>	<u>8,305,062</u>
Other income		
Service charges	1,631,700	1,472,957
Commissions and other revenue	<u>2,102,721</u>	<u>1,830,214</u>
	<u>3,734,421</u>	<u>3,303,171</u>
Gross margin	<u>13,377,751</u>	<u>11,608,233</u>
Expenses		
General business	3,076,663	2,884,686
Depreciation and amortization	580,392	440,541
Members' security	360,481	363,606
Occupancy	1,614,348	1,481,582
Provision for impaired loans (note 6)	345,051	647,735
Personnel	<u>5,420,375</u>	<u>4,757,075</u>
	<u>11,397,310</u>	<u>10,575,225</u>
Earnings before other items and income taxes	<u>1,980,441</u>	<u>1,033,008</u>
Other items		
Customer-owner rebate	<u>300,000</u>	<u>153,500</u>
Earnings before income taxes	1,680,441	879,508
Income taxes (note 18)	<u>432,886</u>	<u>158,739</u>
Net earnings	<u>\$ 1,247,555</u>	<u>\$ 720,769</u>
Retained earnings, beginning of year	\$ 5,471,921	\$ 5,017,551
Net earnings	1,247,555	720,769
Dividends on Class A shares, net of income taxes of \$94,500 (2008 - \$82,005)	<u>(255,500)</u>	<u>(266,399)</u>
Retained earnings, end of year	<u>\$ 6,463,976</u>	<u>\$ 5,471,921</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

CREDIT UNION ATLANTIC LIMITED

CONSOLIDATED BALANCE SHEET

DECEMBER 31	2009	2008
Assets		
Cash and cash equivalents (note 5)	\$ 25,781,740	\$ 30,503,091
Members' loans (note 6)	240,349,963	231,657,056
Goodwill, net of accumulated amortization of \$525,540 (2008 - \$497,386)	84,460	112,614
Long term investments (note 7)	6,556,422	5,787,932
Other assets (note 8)	742,939	805,143
Property and equipment (note 9)	2,745,083	2,600,006
Future income taxes (note 18)	<u>205,911</u>	<u>259,781</u>
	\$ <u>276,466,518</u>	\$ <u>271,725,623</u>
 Liabilities		
Payables and accruals	\$ 1,485,707	\$ 1,304,129
Income taxes payable	56,011	104,071
Members' deposits (note 10)	<u>258,420,144</u>	<u>254,772,449</u>
	<u>259,961,862</u>	<u>256,180,649</u>
 Members' equity (note 12)		
Members' shares (note 13)	7,336,318	7,368,691
Contributed surplus (note 4)	2,704,362	2,704,362
Retained earnings	<u>6,463,976</u>	<u>5,471,921</u>
	<u>16,504,656</u>	<u>15,544,974</u>
	\$ <u>276,466,518</u>	\$ <u>271,725,623</u>

Commitments (note 14)

Approved by the Board of Directors



DIRECTOR



DIRECTOR

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

CREDIT UNION ATLANTIC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

2009

2008

Increase (decrease) in cash and cash equivalents

Operating

Net earnings	\$ 1,247,555	\$ 720,769
Changes in non-cash items		
Allowance for impaired loans	(112,811)	285,609
Future income taxes	53,870	(53,855)
Depreciation and amortization	580,392	440,541
Other assets	62,204	(166,131)
Income taxes payable	(48,060)	135,678
Payables and accruals	<u>181,578</u>	<u>174,471</u>
	<u>1,964,728</u>	<u>1,537,082</u>

Financing

Class A share dividends, net of income tax recovery	(255,500)	(266,399)
Net decrease in Members' shares	(32,373)	(21,485)
Net increase in Members' deposits	3,647,695	20,952,129
Issue of Class A shares	<u>-</u>	<u>60,900</u>
	<u>3,359,822</u>	<u>20,725,145</u>

Investing

Cash resources acquired upon business combination	-	9,233,323
Net increase in Members' loans	(8,580,096)	(19,307,332)
Net (purchases) sales of long term investments	(768,490)	1,088,589
Net purchases of property and equipment	<u>(697,315)</u>	<u>(886,352)</u>
	<u>(10,045,901)</u>	<u>(9,871,772)</u>

Net (decrease) increase in cash and cash equivalents (4,721,351) 12,390,455

Cash and cash equivalents

Beginning of year	<u>30,503,091</u>	<u>18,112,636</u>
End of year	\$ <u>25,781,740</u>	\$ <u>30,503,091</u>

Supplementary information

Interest paid	\$ <u>5,104,038</u>	\$ <u>5,504,991</u>
Income taxes paid	\$ <u>314,912</u>	\$ <u>24,119</u>

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

CREDIT UNION ATLANTIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

1 GOVERNING LEGISLATION AND OPERATIONS

The Credit Union is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CONSOLIDATION

The consolidated financial statements include the accounts of Credit Union Atlantic Limited and its wholly owned subsidiaries Credit Union Atlantic Financial Services Incorporated, Wellspring Financial Management Limited and Federal Savings Enterprises Limited.

Significant inter-company transactions and balances have been eliminated from the consolidated accounts.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with Credit Union Central of Nova Scotia and other financial institutions and accrued interest.

MEMBERS' LOANS AND FORECLOSED ASSETS

Loans are carried at amortized cost plus accrued interest, less allowances for impairment for probable losses on ultimate realization of the loan portfolio. Loans considered uncollectible are written off.

Real estate held for resale is carried at the lower of the amortized cost of the loan or mortgages foreclosed, adjusted for revenues received and cost incurred subsequent to foreclosure and the estimated net proceeds from the sale of assets.

ALLOWANCE FOR IMPAIRED LOANS

Loans are considered impaired when there has been a deterioration in credit quality to the extent the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. Deterioration is determined considering the financial condition of the borrower, payment history and security pledged.

The allowance consists of a portion directly attributed to individually identified loans and a portion that is not directly attributable to any loan or group of loans. The general portion of the allowance is an estimate based on historical write-off experience.

REVENUE RECOGNITION

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

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CUSTOMER-OWNER REBATES

The Credit Union's policy is to accrue patronage rebates when approved by the Board of Directors. These rebates are recorded in the statement of earnings in the year in which they relate.

INCOME TAXES

The Credit Union follows the liability method of accounting for income taxes.

Under this method, future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

MEMBERS' SHARES (NOTE 13)

Class A shares, surplus shares, and members' shares are classified as equity, and represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance.

INVESTMENTS

Investments in equity and debt investments that do not have a quoted market price in an active market are measured at cost. Investment income is recognized on an accrual basis. Gains and losses are included in investment income in the year realized.

PROPERTY AND EQUIPMENT

Capital assets are stated at cost and amortized using the diminishing-balance and straight-line methods at the following rates:

Building	5% DB
Equipment and furniture	20% - 50% SL/DB
Leasehold improvements	Lease term SL

Goodwill is amortized on a straight-line basis over a 15-year period.

USE OF ESTIMATES

Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not anticipate that actual results will differ materially from those estimates.

FOREIGN EXCHANGE

Monetary assets and liabilities denominated in foreign currencies (US dollars, pound sterling and euros) are translated into Canadian dollars at rates prevailing at the month end date. Income and expenses are translated at the exchange rates in effect on the date of the transaction. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

MORTGAGES HELD UNDER ADMINISTRATION

The Credit Union, under a Mortgage Origination Program, has the ability to refer certain mortgages to a third party. No gain or loss on the initial sale has been recorded by the Credit Union as a result of these transactions. Fees earned by the Credit Union to service these mortgages are recognized as the related services are provided and reported in earnings as other income. The balance of mortgages under administration has been disclosed in note 6.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHANGES IN ACCOUNTING POLICIES

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES (FINANCIAL INSTRUMENTS)

The Credit Union classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purposes of ongoing measurements. Financial assets and financial liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on the classifications described below.

Financial assets are classified as either held-for-trading, available-for-sale, held-to-maturity or loans and receivables. Financial liabilities are classified as either held for trading or other financial liability. All financial instruments, including any derivatives, are subsequently measured on the balance sheet at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are recognized in net earnings, while changes in fair value of available-for-sale financial assets are recognized in other comprehensive income until the financial asset is disposed or becomes impaired.

Accumulated other comprehensive income is reported on the balance sheet as a separate component of Members' Equity (net of tax) and includes any unrealized gains and losses on available-for-sale financial assets. The Credit Union has classified its equity investments as available-for-sale. However, because there is no active market for these investments, the Credit Union has not recorded any comprehensive income as a result of these.

The Credit Union has classified its financial instruments and liabilities as follows:

<u>FINANCIAL ASSET / LIABILITY</u>	<u>CLASSIFICATION</u>	<u>SUBSEQUENT MEASUREMENT</u>
Cash and cash equivalents, on hand	Held-for-trading	Fair value
Deposits with financial institutions	Loans and receivable	Amortized cost
Long term investments		
shares	Available-for-sale	Fair value
debentures	Held-to-maturity	Amortized cost
Members' loans (inc. accrued interest) and accounts receivable	Loans and receivables	Amortized cost
Members' deposits (inc. accrued interest) borrowings and payables	Other financial liabilities	Amortized cost

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest method.

EMPLOYEE BENEFIT OBLIGATIONS

The Credit Union records annually, the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent years under the Credit Union's policy.

The defined benefit plan only applies to employees who were employed by Halifax Civic Credit Union as of June 30, 2008 that joined CUA as a result of an amalgamation as described in note 4. Other CUA staff and all new hires are required to join the CUA defined contribution pension plan.

The projected unit credit actuarial method and management's best estimate of the expected plan investment performance, salary escalation, and retirement ages of employees is used to determine pension costs, liabilities and other pension information for the defined benefit plan. Under the projected unit credit actuarial method, prorated on service, an equal portion of the total estimated future benefit, with salary projection, is attributed to each year of service. The expected return on plan assets is based on the fair value of plan assets.

Pension expense, for the defined benefit plan, includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations, amortization of past service costs, amortization of the initial plan obligation and amortization of the net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets. The amortization period covers the expected average remaining service lives of active employees covered by the plan.

Pension expenses for the defined contribution pension plan include the required employer contributions.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

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

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and have completed a detailed Diagnostic / Impact assessment with respect to the IFRS standards of relevance to our conversion. Management is currently in the process of assessing the differences between the Credit Union's current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. At this stage, management is not able to reliably quantify the expected impact on the Credit Union's financial statements.

Management's analysis of changes and policy decisions reflects their expectations regarding the accounting standards that they anticipate will be effective at the time of the Credit Union's transition. Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board ("IASB") throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011, and therefore applicable to the Credit Union's first IFRS financial statements, including comparatives and opening IFRS balance sheet. The Credit Union's IFRS project plan includes activities to ensure management monitors these changes.

3 RISK MANAGEMENT

It is the policy of the Credit Union to manage significant risks efficiently and effectively through an Enterprise Risk Management Process which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate and complete reports on the management of significant risks. Significant risks managed by the Credit Union include liquidity, credit and market risks.

Liquidity risk

Liquidity risk is defined as the risk that the Credit Union will not be able to pay obligations when they fall due or not be able to repay depositors when funds are withdrawn. To mitigate this risk, the Credit Union Act requires that the Credit Union maintain, at all times liquidity that is adequate in relation to the business carried on. The Credit Union is required to maintain liquidity levels as defined in Regulation 19 of the Act, which include maintaining a minimum of 10% of total deposits and borrowings in deposit and eligible investment accounts. The Credit Union calculates its liquidity position on a monthly basis to assess compliance with statutory and mandatory liquidity requirements. These balances are communicated to the Board of Directors regularly throughout the year. The Credit Union manages liquidity by continuously monitoring actual daily cash flows, monitoring the maturity dates of financial assets and financial liabilities, and maintaining adequate cash reserves.

Credit risk

Credit risk is defined as the risk of financial loss to the Credit Union as the result of a member failing to meet their obligations in accordance with contractual terms.

Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral and debt servicing capacity.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

3 RISK MANAGEMENT (CONTINUED)

In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. In addition, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and reported to senior management on a timely and frequent basis to ensure and that all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as prescribed by the Credit Union's lending agreements.

The Credit Union's loan portfolio is focused in two main areas; consumer and commercial loans and mortgages, the latter to small and mid size companies. Commercial loans to larger companies are available through a syndication process with other Credit Unions in order to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to eighty percent of the appraised value of a residential property with all mortgages in excess of that amount being insured through a third party, for example Canada Mortgage and Housing Corporation. Other credit facilities provided include personal overdrafts, and Master Card accounts that have no recourse to the Credit Union.

The Credit Union maintains both specific and general allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. General allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts as well the general state of the economy. Management regularly monitors the Credit Union's credit risk and reports to the Board of Directors on a quarterly basis. overdrafts, and Master Card accounts that have no recourse to the Credit Union.

The Credit Union maintains both specific and general allowances for credit losses. Specific allowances are established on an account by account basis using management's knowledge of the account and prevailing conditions. In addition, accounts delinquent greater than ninety days are included in the specific allowance. General allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans and includes factors such as market conditions, concentration of credit risk for member accounts and the general state of the economy. Management regularly monitors the Credit Union's credit risk and reports to the Board of Directors on a quarterly basis.

Market risk

Market risk is defined as the risk that the Credit Union will not have the ability to meet its business objectives and will be adversely affected by volatility in market rates, including interest rates and foreign exchange rates.

Interest rate risk is the risk that a movement in interest rates will have a material impact on the financial position of the Credit Union. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. The Credit Union measures interest rate risk on a quarterly basis and reports the results to the Board of Directors and the Credit Union Deposit and Insurance Company ("CUDIC").

Foreign currency risk exposure results if financial assets or financial liabilities are denominated in a currency other than Canadian dollars. The Credit Union holds US dollars, pounds sterling and euros. The pound sterling and euros are held in cash for trading purposes. The balances held are relatively low therefore, the currency risk is low. The Credit Union follows a policy of holding US dollars in an amount slightly below the US dollar deposit account levels. These levels are monitored and recorded daily. The buy and sell rates are also monitored and recorded daily. Excess US cash holdings are converted into Canadian funds.

CREDIT UNION ATLANTIC LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009

4 BUSINESS COMBINATION DURING 2008

On July 1, 2008, Credit Union Atlantic completed an amalgamation with Halifax Civic Credit Union whereby all outstanding assets and liabilities of the two entities were combined. There was no cash consideration exchanged in this transaction. The transaction was accounted for in accordance with the prescribed requirements for business combinations of cooperative enterprises using the purchase method of accounting. The statement of earnings for 2008 includes the operations of Halifax Civic Credit Union since the date of amalgamation.

Following this method of accounting for business combinations, the net assets of Halifax Civic Credit Union are recorded as being acquired by Credit Union Atlantic Limited at fair values as at July 1, 2008. The fair value of the assets and liabilities were determined with reference to current market interest rates for similar financial instruments, third party appraisals for certain capital assets and valuation techniques that follow generally accepted accounting principles. The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed:

(THOUSANDS OF DOLLARS)	
Cash resources and investments	\$ 9,233
Members' loans	20,635
Long term investments	1,780
Receivables	40
Property and equipment	659
Prepays	59
Future income taxes	19
TOTAL ASSETS	\$ 32,425
Payables and accruals	\$ 133
Pension obligation	21
Members' deposits	29,555
Members' share capital	12
Total liabilities and equity	\$ 29,721
FAIR VALUE OF NET ASSETS ACQUIRED	\$ 2,704

The fair value of the net assets acquired has been recorded as contributed surplus in members' equity.

CREDIT UNION ATLANTIC LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2009

5 CASH AND CASH EQUIVALENTS	2009	2008
Cash on hand and in current accounts	\$ 2,458,395	\$ 3,530,526
Deposits with financial institutions:		
Credit Union Central of Nova Scotia liquidity deposits	21,925,619	24,334,216
Other	<u>1,397,726</u>	<u>2,638,349</u>
	<u>\$ 25,781,740</u>	<u>\$ 30,503,091</u>

Required liquidity as defined in Regulation 19 is \$25,673,418 (2008 - \$22,611,531). Actual liquidity at December 31, 2009 is \$29,772,877 (2008 - \$26,301,385).

6 MEMBERS' LOANS

	<u>TOTAL LOANS</u>	<u>IMPAIRED LOANS (INCLUDED IN TOTAL LOANS)</u>	<u>TOTAL ALLOWANCE</u>	<u>SPECIFIC ALLOWANCE (INCLUDED IN TOTAL ALLOWANCE)</u>	<u>NET LOANS</u>
2009					
Consumer loans	\$ 72,392,608	\$ 678,889	\$ 491,297	\$ 229,720	\$ 71,901,311
Consumer mortgages	134,346,453	728,342	243,024	-	134,103,429
Commercial loans and mortgages	33,512,302	61,042	227,433	13,304	33,284,869
Real estate held for resale	76,849	-	-	-	76,849
Accrued interest	567,525	-	-	-	567,525
Deferred fees	<u>415,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>415,980</u>
	<u>\$ 241,311,717</u>	<u>\$ 1,468,273</u>	<u>\$ 961,754</u>	<u>\$ 243,024</u>	<u>\$ 240,349,963</u>
2008					
Consumer loans	\$ 67,762,016	\$ 535,813	\$ 478,353	\$ 291,005	\$ 67,283,663
Consumer mortgages	132,311,711	712,275	355,834	-	131,955,877
Commercial loans and mortgages	31,443,261	184,218	240,377	64,830	31,202,884
Real estate held for resale	211,334	-	-	-	211,334
Accrued interest	633,903	-	-	-	633,903
Deferred fees	<u>369,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>369,395</u>
	<u>\$ 232,731,620</u>	<u>\$ 1,432,306</u>	<u>\$ 1,074,564</u>	<u>\$ 355,835</u>	<u>\$ 231,657,056</u>

In addition to members' loans noted above, the Credit Union administers mortgages in the amount of \$13,562,914 (2008 - \$6,435,884).

CREDIT UNION ATLANTIC LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2009

6 MEMBERS' LOANS (CONTINUED)

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	2009	2008
31 to 60 days	\$ 341,899	\$ 1,237,237
61 to 90 days	622,583	371,374
91 to 180 days	134,676	260,333
Over 180 days	<u>253,937</u>	<u>209,437</u>
	\$ 1,353,095	\$ 2,078,381
CONTINUITY OF ALLOWANCE FOR IMPAIRED LOANS		
	2009	2008
Allowance, beginning of year	\$ 1,074,564	\$ 788,955
Addition to allowance upon amalgamation with Halifax Civic Credit Union Limited	-	103,411
Provision for impaired loans	345,051	647,735
Recovery of loans written-off	94,053	91,128
Interest received on impaired loans	14,126	12,239
Write offs	<u>(566,040)</u>	<u>(568,904)</u>
Allowance, end of year	\$ 961,754	\$ 1,074,564

7 LONG TERM INVESTMENTS

	2009	2008
Shares		
Credit Union Central of Nova Scotia	\$ 3,368,250	\$ 3,186,000
Credit Union Mutual Insurance Services	-	11,760
Concentra Financial Services Association	600,000	-
League Savings and Mortgage Company	1,370,381	1,370,381
League Data Limited	100,230	100,230
Other	<u>561</u>	<u>2,561</u>
	5,439,422	4,670,932
Debenture		
League Savings and Mortgage Company, maturing December 31, 2024	<u>1,117,000</u>	<u>1,117,000</u>
	\$ 6,556,422	\$ 5,787,932

Long term investments in shares in the Credit Union System (the "System") and others have been classified as available-for-sale and are required to be measured at fair value with any changes in fair value recorded in other comprehensive income. The Credit Union has determined the fair value of these investments is not readily available and therefore measures these investments at cost with no adjustments to other comprehensive income.

The Credit Union's investment in the System debenture has been classified as held-to-maturity and is required to be measured at amortized cost.

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8 OTHER ASSETS	2009	2008
Accounts receivable	\$ 502,783	\$ 614,639
Prepaid expenses	<u>240,156</u>	<u>190,504</u>
	\$ <u>742,939</u>	\$ <u>805,143</u>

9 PROPERTY AND EQUIPMENT	2009		2008	
	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET BOOK VALUE</u>	<u>NET BOOK VALUE</u>
Land	\$ 201,908	\$ -	\$ 201,908	\$ 201,908
Building	503,924	143,878	360,046	378,930
Furniture and equipment	7,963,844	6,886,368	1,077,476	1,041,515
Leasehold improvements	<u>2,557,565</u>	<u>1,451,912</u>	<u>1,105,653</u>	<u>977,653</u>
	\$ <u>11,227,241</u>	\$ <u>8,482,158</u>	\$ <u>2,745,083</u>	\$ <u>2,600,006</u>

10 MEMBERS' DEPOSITS	2009	2008
Chequing and demand deposits	\$ 113,364,138	\$ 105,188,358
Terms, RRSPs, RRIFs	143,294,489	147,261,869
Accrued deposit interest	<u>1,761,517</u>	<u>2,322,222</u>
	\$ <u>258,420,144</u>	\$ <u>254,772,449</u>

Transactions costs associated with members' registered and non-registered deposits are deferred and included in the amortized cost of the related deposit account in the amount of \$117,927 (2008 - \$157,834).

11 CREDIT FACILITY

The Credit Union has a \$15,000,000 line of credit with Credit Union Central of Nova Scotia. As at December 31, 2009, the Credit Union had drawn \$2,183,774 (2008 - \$Nil) against the line of credit. This amount has been netted against the Credit Union's liquidity deposits (note 5). The line of credit bears interest at the credit union prime rate. As security, the Credit Union has provided an assignment of book debts.

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12 CAPITAL REQUIREMENTS

The Credit Union's plan to manage equity is designed to establish a strong base for future growth, the payment of dividends on the Class A special equity shares, as well as provide a cushion in the event of market volatility. Members' equity consists of members' shares, surplus shares, Class A special equity shares, and retained earnings less dividends on the Class A shares net of income taxes. In accordance with the Credit Union Act, the Credit Union shall establish and maintain a level of equity that is not less than 5% of its assets. As at December 31, 2009, the Credit Union's equity was 5.98% (2008 – 5.72%) of its assets. Members' equity ratios are monitored regularly and reported to the Board monthly. The Credit Union equity ratios have been in compliance with the regulatory requirements throughout the year.

13 MEMBERS' SHARES

AUTHORIZED:

Class A special equity shares ("Class A shares")

Limited Class A non-voting (except as provided in Section 39 of the Act), non-cumulative special equity shares, having a par value of \$100 each, redeemable and retractable at their par value. The Class A shares are available only to the holders of the common and surplus shares ("member shares").

Member shares

Unlimited redeemable, voting equity shares with a par value of \$5. Each member of the Credit Union is required to hold one member share. Each member over the age of nineteen years is entitled to one vote.

Surplus shares

Unlimited redeemable, non-voting equity shares with a par value of \$1.

	2009	2008
ISSUED AND OUTSTANDING:		
70,000 (2008 – 70,000) Class A shares	\$ 7,000,000	\$ 7,000,000
15,080 (2008 – 14,673) member shares	73,508	73,368
412,067 (2008 – 444,580) surplus shares	<u>412,067</u>	<u>444,580</u>
	<u>7,485,575</u>	<u>7,517,948</u>
Less: Share issue costs	<u>(149,257)</u>	<u>(149,257)</u>
	\$ <u>7,336,318</u>	\$ <u>7,368,691</u>

Class A shares

Holders of the Class A shares shall be entitled to receive, when, as, and if declared by the Board of the Directors (the "Board") of the Credit Union, non-cumulative dividends at a rate approved by the Board, provided that the annual dividend rate, if declared, shall not be less than the greater of 5% or 125 basis points above the Credit Union's then current five year GIC rate calculated on the par value of the Class A shares. The Class A shares rank senior and superior to the member shares with respect to return of capital.

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13 MEMBERS' SHARES (CONTINUED)

The Class A shares may be redeemed at the option of the member once a period of not less than five years following their issuance date has passed, by giving ten days written notice and payment by the Credit Union shall be within thirty days of such notice. The Class A shares are also immediately redeemed upon the death of a shareholder. Subject to the provisions of the Act, the Credit Union may upon giving thirty days written notice, redeem the whole or any part of the Class A shares at any time. During the year, there was no issuance of Class A shares (2008 – 609 Class A shares for \$60,900).

Members' shares

Member shares may be withdrawn at any time by giving ninety days written notice and payment by the Credit Union shall be within thirty days of such notice. During the year, 407 member shares were issued for consideration of \$140 (2008 – 1,815 shares redeemed for \$9,075). During the year, 32,513 surplus shares were redeemed for a total of \$32,513 (2008 – transfer of 444,580 shares for \$444,580).

Surplus shares

Surplus shares may be withdrawn at any time by giving ninety days written notice and payment by the Credit Union shall be within thirty days of such notice. As part of the amalgamation during fiscal 2008, the capital structure was amended and 88,916 member shares were exchanged for 444,580 surplus shares of equal par value of \$444,580.

14 COMMITMENTS

LEASE AND OTHER OBLIGATIONS

The approximate minimum annual payments for the Credit Union's leased facilities and other contractual obligations of the Credit Union over the next five years in aggregate are as follows:

2010	\$ 1,196,100
2011	1,191,450
2012	1,060,800
2013	925,850
2014	887,000

15 RELATED PARTY TRANSACTIONS

At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and their spouses had loans owing to the Credit Union totalling \$9,652,409 (2008 - \$7,439,569). At year end, members of the Board of Directors, Credit Committee, Audit Committee, management, employees and their spouses had deposits with the Credit Union totalling \$1,760,472 (2008 - \$2,318,844).

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16 FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Credit Union's financial instruments are set out below. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act. No fair values have been determined for property and equipment or any other asset that is not a financial instrument. The Credit Union has excluded items which are considered short term in nature as their book value approximate fair value.

The Credit Union categories valuation methods used for financial instruments carried at fair value under a hierarchy of valuation techniques based on whether inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Credit Union's market assumptions. These two inputs create the following fair value hierarchy:

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

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. Loans and deposits have been classified as Level 2 as fair values are primarily due to change in interest rates.

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

	2009		2008	
	<u>BOOK VALUE</u>	<u>ESTIMATED FAIR VALUE</u>	<u>BOOK VALUE</u>	<u>ESTIMATED FAIR VALUE</u>
Financial assets				
Members' loans	\$ 240,349,963	\$ 247,656,942	\$ 231,657,056	\$ 234,864,621
Financial liabilities				
Members' deposits	258,420,144	258,437,942	254,772,449	254,953,873

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17 INTEREST RATE SENSITIVITY

The following table sets out the scheduled maturities or repricing dates, whichever occurs earlier, of the financial assets and liabilities as at December 31, 2009, together with the weighted average interest rates, subject to interest rate fluctuations.

(IN THOUSANDS
 OF DOLLARS)

2009	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	NON INTEREST SENSITIVE	TOTAL	AVERAGE RATE
Financial assets									
Cash and cash equivalents	\$ 21,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,894	\$ 25,781	0.35%
Members' loans	41,194	39,168	49,990	51,575	44,227	14,098	99	240,351	5.99%
	<u>\$ 63,081</u>	<u>\$ 39,168</u>	<u>\$ 49,990</u>	<u>\$ 51,575</u>	<u>\$ 44,227</u>	<u>\$ 14,098</u>	<u>\$ 3,993</u>	<u>\$ 266,132</u>	
Financial liabilities									
Members' deposits	\$ 117,203	\$ 35,596	\$ 12,322	\$ 8,477	\$ 4,549	\$ -	\$ 80,273	\$ 258,420	2.25%
2008									
2008	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	3 TO 4 YEARS	4 TO 5 YEARS	OVER 5 YEARS	NON INTEREST SENSITIVE	TOTAL	AVERAGE RATE
Financial assets									
Cash and cash equivalents	\$ 25,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,169	\$ 30,503	2.00%
Members' loans	47,465	33,766	35,810	47,934	51,630	15,123	(71)	231,657	5.59%
	<u>\$ 72,799</u>	<u>\$ 33,766</u>	<u>\$ 35,810</u>	<u>\$ 47,934</u>	<u>\$ 51,630</u>	<u>\$ 15,123</u>	<u>\$ 5,098</u>	<u>\$ 262,160</u>	
Financial liabilities									
Members' deposits	\$ 117,880	\$ 23,594	\$ 19,791	\$ 7,418	\$ 7,977	\$ -	\$ 78,112	\$ 254,772	3.27%

18 INCOME TAXES

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

	2009	2008
Current income taxes	\$ 379,016	\$ 200,449
Future income taxes (recovery)	<u>53,870</u>	<u>(41,710)</u>
Income taxes	\$ <u>432,886</u>	\$ <u>158,739</u>

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

FUTURE INCOME TAX ASSETS:

Property and equipment	\$ (40,848)	\$ 14,549
Allowance for impaired loans	200,618	203,665
Pension obligation	15,687	13,527
Other	<u>30,454</u>	<u>28,040</u>
Total future income tax	\$ <u>205,911</u>	\$ <u>259,781</u>

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18 INCOME TAXES (CONTINUED)

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

YEAR ENDED DECEMBER 31	2009	2008
Income before income taxes	\$ 1,680,441	\$ 879,508
Combined Canadian basic federal and provincial income tax rate	<u>44.00 %</u>	<u>44.00 %</u>
Expected income tax	739,394	386,984
Effect on incomte tax of:		
Credit Union deductions/ temporary differences	(284,993)	(143,976)
Permanent differences	<u>(21,515)</u>	<u>(42,559)</u>
Current income tax	432,886	200,449
Future income tax:		
Change in timing differences	<u>-</u>	<u>(41,710)</u>
Total income tax expense	\$ <u>432,886</u>	\$ <u>158,739</u>

19 PENSION PLAN

Halifax Civic Credit Union Limited, which amalgamated with Credit Union Atlantic Limited as at July 1, 2008, established a defined benefit pension plan for its employees in 2003. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at June 30, 2009. The next funding actuarial valuation is scheduled to occur in 2012. The results of this valuation, which are based on the projected unit credit actuarial method and best estimate assumption, indicated the Plan had a funding deficiency of \$201,400, based on actuarial liabilities of \$1,595,400 and a market value of assets of \$1,390,900. As a result, the Credit Union is required to make annual payments of \$22,284 over the remaining expected average remaining service life at the initiation of the plan, in addition to the estimated annual employer current service cost.

The defined benefit plan only applies to employees who were previously employed by Halifax Civic Credit Union as of June 30, 2008. Other CUA employees and all new hires are required to join the CUA defined contribution pension plan.

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19 PENSION PLAN (CONTINUED)

Information about the financial position of the Credit Union's defined benefit plan as at December 31 is as follows:

	2009	2008
Accrued benefit obligation	\$ 1,907,800	\$ 1,282,400
Fair value of plan assets	<u>1,521,200</u>	<u>1,259,900</u>
Funded status-plan deficit	\$ <u>(386,600)</u>	\$ <u>(22,500)</u>
Funded status-plan deficit	\$ (386,600)	\$ (22,500)
Unamortized past service costs	338,200	378,400
Unamortized net actuarial gain	<u>(9,700)</u>	<u>(406,000)</u>
Deferred pension obligation included in payables and accruals	\$ <u>(58,100)</u>	\$ <u>(50,100)</u>

The following actuarial assumptions have been used in the determination of the accrued benefit obligation and the fair value of plan assets:

Discount rate	5.75%	7%
Expected long-term rate of return on plan assets	7%	7%
Rate of compensation increase	3.5%	3.5%
Remaining service life	13.9 years	13.9 years

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

Defined benefit plan	\$ <u>57,900</u>	\$ <u>52,800</u>
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Other information about the Credit Union's defined benefit plan is as follows:

Employer's contributions	\$ <u>49,900</u>	\$ <u>23,710</u>
Employees' contributions	\$ <u>30,700</u>	\$ <u>17,000</u>
Benefits paid	\$ <u>-</u>	\$ <u>1,100</u>

Defined contribution pension plan costs amounted to \$257,464 (2008 - \$277,467).