



Consolidated Financial Statements

Credit Union Atlantic Limited

December 31, 2010

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Independent auditor's report

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To the members of
Credit Union Atlantic Limited

We have audited the accompanying consolidated financial statements of **Credit Union Atlantic Limited**, which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of earnings, retained earnings and cash flows the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

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

Auditor's Responsibility

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

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

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

Opinion

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



Halifax, Nova Scotia
March 3, 2011

Chartered Accountants

Credit Union Atlantic Limited

Consolidated statements of earnings and retained earnings

Year ended December 31	2010	2009
Financial revenue		
Loan interest	\$ 13,614,978	\$ 13,747,724
Investment income	<u>465,773</u>	<u>635,226</u>
	<u>14,080,751</u>	<u>14,382,950</u>
Financial expense		
Distribution to members		
Interest on deposits	3,429,668	4,446,265
Loan interest	83,759	68,987
Finders fees	<u>217,318</u>	<u>224,368</u>
	<u>3,730,745</u>	<u>4,739,620</u>
Gross financial margin	<u>10,350,006</u>	<u>9,643,330</u>
Other income		
Service charges	1,634,454	1,631,700
Commissions and other revenue	<u>2,434,387</u>	<u>2,102,721</u>
	<u>4,068,841</u>	<u>3,734,421</u>
Gross margin	<u>14,418,847</u>	<u>13,377,751</u>
Expenses		
General business	3,164,559	3,076,663
Depreciation and amortization	625,990	580,392
Members' security	385,980	360,481
Occupancy	1,645,802	1,614,348
Provision for impaired loans (note 5)	823,322	345,051
Personnel	<u>5,639,746</u>	<u>5,420,375</u>
	<u>12,285,399</u>	<u>11,397,310</u>
Earnings before other items and income taxes	<u>2,133,448</u>	<u>1,980,441</u>
Other items		
Member rebate	<u>300,000</u>	<u>300,000</u>
Earnings before income taxes	1,833,448	1,680,441
Income taxes (note 17)	<u>486,441</u>	<u>432,886</u>
Net earnings	<u>\$ 1,347,007</u>	<u>\$ 1,247,555</u>
Retained earnings, beginning of year	\$ 6,463,976	\$ 5,471,921
Net earnings	1,347,007	1,247,555
Dividends on Class A shares, net of income taxes of \$93,879 (2009 - \$94,500)	<u>(253,819)</u>	<u>(255,500)</u>
Retained earnings, end of year	<u>\$ 7,557,164</u>	<u>\$ 6,463,976</u>

See accompanying notes to the consolidated financial statements.

Credit Union Atlantic Limited

Consolidated balance sheet

December 31 2010 2009

Assets

Cash and cash equivalents (note 4)	\$ 26,794,600	\$ 25,781,740
Members' loans (note 5)	255,943,827	240,349,963
Goodwill, net of accumulated amortization of \$553,694 (2009 - \$525,540)	56,306	84,460
Long term investments (note 6)	6,556,421	6,556,422
Other assets (note 7)	620,428	742,939
Property and equipment (note 8)	2,817,814	2,745,083
Future income taxes (note 17)	<u>202,633</u>	<u>205,911</u>
	\$ 292,992,029	\$ 276,466,518

Liabilities

Payables and accruals	\$ 1,430,142	\$ 1,485,707
Income taxes payable	115,432	56,011
Members' deposits (note 9)	<u>273,893,818</u>	<u>258,420,144</u>
	275,439,392	259,961,862

Members' equity (note 11)

Members' shares (note 12)	7,291,111	7,336,318
Contributed surplus	2,704,362	2,704,362
Retained earnings	<u>7,557,164</u>	<u>6,463,976</u>
	17,552,637	16,504,656
	\$ 292,992,029	\$ 276,466,518

Commitments (note 13)

Approved by the Board of Directors

Walter Thompson

Director

[Signature]

Director

See accompanying notes to the consolidated financial statements.

Credit Union Atlantic Limited

Consolidated statement of cash flows

Year ended December 31

2010

2009

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 1,347,007	\$ 1,247,555
Changes in non-cash items		
Allowance for impaired loans	323,247	(112,811)
Future income taxes	3,278	53,870
Depreciation and amortization	625,990	580,392
Other assets	122,511	62,204
Income taxes payable	59,421	(48,060)
Payables and accruals	<u>(55,565)</u>	<u>181,578</u>
	<u>2,425,889</u>	<u>1,964,728</u>
Financing		
Class A share dividends, net of income tax recovery	(253,819)	(255,500)
Net decrease in members' shares	(45,207)	(32,373)
Net increase in members' deposits	<u>15,473,674</u>	<u>3,647,695</u>
	<u>15,174,648</u>	<u>3,359,822</u>
Investing		
Net increase in members' loans	(15,917,111)	(8,580,096)
Net sales (purchases) of long term investments	1	(768,490)
Net purchases of property and equipment	<u>(670,567)</u>	<u>(697,315)</u>
	<u>(16,587,677)</u>	<u>(10,045,901)</u>
Net increase (decrease) in cash and cash equivalents	1,012,860	(4,721,351)
Cash and cash equivalents		
Beginning of year	<u>25,781,740</u>	<u>30,503,091</u>
End of year	\$ <u>26,794,600</u>	\$ <u>25,781,740</u>
Supplementary information		
Interest paid	\$ <u>3,792,986</u>	\$ <u>5,104,038</u>
Income taxes paid	\$ <u>323,198</u>	\$ <u>314,912</u>

See accompanying notes to the consolidated financial statements.

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

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 principles.

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 and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be specifically identified on an account-by-account basis.

Revenue recognition

Interest accrued on 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, 2010

2. Summary of significant accounting policies (continued)

Member 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 12)

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	25 years SL
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 5.

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

2. Summary of significant accounting policies (continued)

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 other financial liabilities. 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

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.

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

2. Summary of significant accounting policies (continued)

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 the Credit Union as a result of an amalgamation. Other Credit Union staff and all new hires are required to join the Credit Union 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 five phases: (1) Scope, (2) Plan and Design, (3) Build; (4) Review and (5) Implement. The Scope, Plan, and Design phases are substantially complete and the Build and Review phases are 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.

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 has assessed substantially all of 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 quantify all of the expected impacts on the Credit Union's financial statements.

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

2. Summary of significant accounting policies (continued)

International financial reporting standards (“IFRS”) (continued)

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 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, 2010

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.

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, 2010

4. Cash and cash equivalents	<u>2010</u>	<u>2009</u>
Cash on hand and in current accounts	\$ 2,658,478	\$ 2,458,395
Deposits with financial institutions:		
Credit Union Central of Nova Scotia liquidity deposits	22,386,113	21,925,619
Other	<u>1,750,009</u>	<u>1,397,726</u>
	\$ 26,794,600	\$ 25,781,740

Required liquidity as defined in Regulation 19 is \$27,331,040 (2009 - \$25,673,418). Actual liquidity at December 31, 2010 is \$29,964,573 (2009 - \$29,772,877).

5. Members' loans

	<u>Total Loans</u>	<u>Impaired Loans</u> (included in total loans)	<u>Total Allowance</u>	<u>Specific Allowance</u> (included in total allowance)	<u>Net Loans</u>
<u>2010</u>					
Consumer loans	\$ 73,903,573	\$ 229,971	\$ 379,763	\$ 172,231	\$ 73,523,811
Consumer mortgages	142,626,150	1,534,629	400,514	-	142,225,636
Commercial loans and mortgages	39,415,556	906,284	504,724	394,040	38,910,832
Real estate held for resale	310,406	-	-	-	310,406
Accrued interest	555,139	-	-	-	555,139
Deferred fees	<u>418,003</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,003</u>
	<u>\$257,228,827</u>	<u>\$ 2,670,884</u>	<u>\$ 1,285,001</u>	<u>\$ 566,271</u>	<u>\$255,943,827</u>
<u>2009</u>					
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>

In addition to members' loans noted above, the Credit Union administers mortgages in the amount of \$11,449,348 (2009 - \$13,562,914).

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

5. Members' loans (continued)

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

	<u>2010</u>	<u>2009</u>
31 to 60 days	\$ 1,871,491	\$ 341,899
61 to 90 days	256,362	622,583
91 to 180 days	85,321	134,676
Over 180 days	<u>226,200</u>	<u>253,937</u>
	<u>\$ 2,439,374</u>	<u>\$ 1,353,095</u>
Continuity of allowance for impaired loans	<u>2010</u>	<u>2009</u>
Allowance, beginning of year	\$ 961,754	\$ 1,074,564
Provision for impaired loans	823,322	345,051
Recovery of loans written-off	112,970	94,053
Interest received on impaired loans	9,008	14,126
Write offs	<u>(622,053)</u>	<u>(566,040)</u>
Allowance, end of year	<u>\$ 1,285,001</u>	<u>\$ 961,754</u>

6. Long term investments

	<u>2010</u>	<u>2009</u>
Shares		
Credit Union Central of Nova Scotia	\$ 3,368,250	\$ 3,368,250
Concentra Financial Services Association	600,000	600,000
League Savings and Mortgage Company	1,370,381	1,370,381
League Data Limited	100,230	100,230
Other	<u>560</u>	<u>561</u>
	<u>5,439,421</u>	<u>5,439,422</u>
Debenture		
League Savings and Mortgage Company, maturing December 31, 2024	<u>1,117,000</u>	<u>1,117,000</u>
	<u>\$ 6,556,421</u>	<u>\$ 6,556,422</u>

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.

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

7. Other assets	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 392,014	\$ 502,783
Prepaid expenses	<u>228,414</u>	<u>240,156</u>
	\$ 620,428	\$ 742,939

8. Property and equipment			<u>2010</u>	<u>2009</u>
	<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	553,620	136,834	416,786	360,046
Furniture and equipment	4,029,582	2,834,092	1,195,490	1,077,476
Leasehold improvements	<u>1,973,291</u>	<u>969,661</u>	<u>1,003,630</u>	<u>1,105,653</u>
	\$ 6,758,401	\$ 3,940,587	\$ 2,817,814	\$ 2,745,083

9. Members' deposits	<u>2010</u>	<u>2009</u>
Chequing and demand deposits	\$ 122,862,314	\$ 113,364,138
Terms, RRSPs, RRIFs, TSFAs	149,508,608	143,294,489
Accrued deposit interest	<u>1,522,896</u>	<u>1,761,517</u>
	\$ 273,893,818	\$ 258,420,144

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 \$80,969 (2009 - \$117,927).

10. Credit facility

The Credit Union has a \$15,000,000 line of credit with Credit Union Central of Nova Scotia. As at December 31, 2010, the Credit Union had drawn \$2,528,263 (2009 - \$2,183,774) against the line of credit. This amount has been netted against the Credit Union's liquidity deposits (note 4).

The line of credit bears interest at the credit union prime rate. As security, the Credit Union has provided an assignment of book debts.

Credit Union Atlantic Limited

Notes to the consolidated financial statements

December 31, 2010

11. 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, 2010, the Credit Union's equity was 5.99% (2009 – 5.98%) 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.

12. 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.

	<u>2010</u>	<u>2009</u>
Issued and outstanding:		
69,803 (2009 – 70,000) Class A shares	\$ 6,980,300	\$ 7,000,000
15,178 (2009 – 15,080) member shares	74,128	73,508
385,940 (2009 – 412,067) surplus shares	<u>385,940</u>	<u>412,067</u>
	7,440,368	7,485,575
Less: Share issue costs	<u>(149,257)</u>	<u>(149,257)</u>
	\$ 7,291,111	\$ 7,336,318

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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12. 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, 197 Class A shares (2009 - Nil) were redeemed for \$19,700 (2009 - \$Nil).

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, 98 member shares were issued for \$620 (2009 - 407 redeemed for \$140).

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. During the year, 26,127 surplus shares (2009 - 32,513) were redeemed for \$26,127 (2009 - \$32,513).

13. 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:

2011	\$ 1,227,639
2012	1,092,250
2013	953,911
2014	894,026
2015	868,049

14. Related party transactions

At year end, members of the Board of Directors, management, and employees had loans owing to the Credit Union totalling \$9,212,873 (2009 - \$9,148,750). At year end, members of the Board of Directors, management, and employees had deposits with the Credit Union totalling \$2,556,985 (2009 - \$2,959,188).

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15. 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 and is best evidenced by a quoted market price, if one exists. Quoted market prices are prices not available for a significant portion of the Company's financial instruments.

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.

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

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

	2010		2009	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Financial assets				
Members' loans	\$ 255,943,827	\$ 260,411,431	\$ 240,349,963	\$ 247,656,942
Financial liabilities				
Members' deposits	273,893,817	273,898,607	258,420,144	258,437,942

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16. 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, 2010, together with the weighted average interest rates, subject to interest rate fluctuations.

(in thousands of dollars)

2010	Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years	Non	Average Total	Average Rate
							Interest Sensitive		
Financial assets									
Cash and cash equivalents	\$ 22,501	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,294	\$ 26,795	0.76%
Members' loans	<u>46,014</u>	<u>54,901</u>	<u>53,517</u>	<u>40,947</u>	<u>44,715</u>	<u>15,850</u>	-	<u>255,944</u>	5.85%
	<u>\$ 68,515</u>	<u>\$ 54,901</u>	<u>\$ 53,517</u>	<u>\$ 40,947</u>	<u>\$ 44,715</u>	<u>\$ 15,850</u>	<u>\$ 4,294</u>	<u>\$ 282,739</u>	
Financial liabilities									
Members' deposits	<u>\$ 139,939</u>	<u>\$ 25,855</u>	<u>\$ 11,497</u>	<u>\$ 6,202</u>	<u>\$ 5,197</u>	<u>\$ -</u>	<u>\$ 85,204</u>	<u>\$ 273,894</u>	2.01%
2009									
2009	Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years	Non	Average Total	Average Rate
							Interest Sensitive		
Financial assets									
Cash and cash equivalents	\$ 21,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,894	\$ 25,781	0.35%
Members' loans	<u>41,194</u>	<u>39,168</u>	<u>49,990</u>	<u>51,575</u>	<u>44,227</u>	<u>14,098</u>	<u>99</u>	<u>240,351</u>	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	<u>\$ 117,203</u>	<u>\$ 35,596</u>	<u>\$ 12,322</u>	<u>\$ 8,477</u>	<u>\$ 4,549</u>	<u>\$ -</u>	<u>\$ 80,273</u>	<u>\$ 258,420</u>	2.25%

17. Income taxes

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

	<u>2010</u>	<u>2009</u>
Current income taxes	\$ 476,488	\$ 379,016
Future income taxes	<u>9,953</u>	<u>53,870</u>
Income taxes	<u>\$ 486,441</u>	<u>\$ 432,886</u>
The components of the future income tax asset are as follows:		
Future income tax assets:		
Property and equipment	\$ (53,655)	\$ (40,848)
Allowance for impaired loans	209,346	200,618
Pension obligation	(486)	15,687
Other	<u>47,428</u>	<u>30,454</u>
Total future income tax	<u>\$ 202,633</u>	<u>\$ 205,911</u>

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17. 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	<u>2010</u>	<u>2009</u>
Income before income taxes	\$ 1,833,448	\$ 1,680,441
Combined Canadian basic federal and provincial income tax rate	<u>44.00%</u>	<u>44.00%</u>
Expected income tax	806,717	739,394
Effect on income tax of:		
Credit Union deductions/temporary differences	(312,935)	(284,993)
Permanent differences	<u>(7,341)</u>	<u>(21,515)</u>
Current income tax	<u>486,441</u>	<u>432,886</u>
Total income tax expense	\$ <u>486,441</u>	\$ <u>432,886</u>

18. 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 and solvency deficiency of \$271,200, 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 combined annual payments of \$80,904 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 Credit Union employees and all new hires are required to join the Credit Union defined contribution pension plan.

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18. Pension plan (continued)

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

	<u>2010</u>	<u>2009</u>
Accrued benefit obligation	\$ 2,539,700	\$ 1,907,800
Fair value of plan assets	<u>1,847,000</u>	<u>1,521,200</u>
Funded status-plan deficit	\$ <u>(692,700)</u>	\$ <u>(386,600)</u>
Funded status plan deficit	\$ (692,700)	\$ (386,600)
Unamortized past service costs	298,000	338,200
Unamortized net actuarial gain or loss	<u>396,500</u>	<u>(9,700)</u>
Deferred pension obligation included in payables and accruals	\$ <u>1,800</u>	\$ <u>(58,100)</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	5.00%	5.75%
Expected long-term rate of return on plan assets	7%	7%
Rate of compensation increase	3.0%	3.5%
Remaining service life	13.5 years	13.9 years

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

	<u>2010</u>	<u>2009</u>
Defined benefit plan	\$ <u>124,300</u>	\$ <u>57,900</u>

Other information about the Credit Union's defined benefit plan is as follows:

Employer's contributions	\$ <u>184,200</u>	\$ <u>49,900</u>
Employees' contributions	\$ <u>30,800</u>	\$ <u>30,700</u>
Benefits paid	\$ <u>8,300</u>	\$ <u>-</u>

Defined contribution pension plan costs amounted to \$256,947 (2009 - \$257,464).