



Credit Union
Central of Canada

FINANCIAL STATEMENTS DECEMBER 31, 2010

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The management of Credit Union Central of Canada ("Canadian Central") is responsible for the integrity, objectivity and consistency of the financial information presented in this annual report. This responsibility includes selecting appropriate accounting policies which are in accordance with Canadian generally accepted accounting principles ("GAAP") and ensuring that the financial information is based on informed judgements and estimates. The Board of Directors has approved the financial statements for issuance to the members.

Management maintains the necessary system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records maintained.

The Board of Directors oversees management's responsibilities for financial statements through the Audit & Risk Management and Conduct Review Committees, which are composed solely of directors who are not officers or employees of Canadian Central.

The Audit & Risk Management Committee conducts a detailed review of the financial statements with management and the independent auditors before recommending their approval to the Board of Directors. Annually, the Office of the Superintendent of Financial Institutions Canada reviews the activities of Canadian Central, to the extent deemed necessary, to satisfy itself that provisions of the Cooperative Credit Associations Act (Canada), having reference to the safety of the interests of depositors and members of Canadian Central, are being duly observed and that Canadian Central is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit & Risk Management Committee to discuss their audit and matters arising therefrom.



David Philips
President & Chief Executive Officer



Stephen Fitzpatrick
Vice President, Operations & Chief Financial Officer

FINANCIAL STATEMENTS

TO THE MEMBERS OF CREDIT UNION CENTRAL OF CANADA

We have audited the accompanying financial statements of Credit Union Central of Canada, which comprise the balance sheet as at December 31, 2010 and the statements of earnings, comprehensive Income and retained earnings and cash flows for the year then ended, and notes, comprising 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 Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 an 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 Credit Union Central of Canada as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Accountants, Licensed Public Accountants

February 10, 2011
Toronto, Canada

BALANCE SHEET

December 31, 2010, with comparative figures for 2009

	2010	2009
ASSETS:		
Cash	\$ 26,492,519	\$ 21,802,878
Deposits with the Bank of Canada	335,803	382,147,415
Held-for-trading investments (note 5)	42,731,511	42,535,679
Available-for-sale securities (note 6)	4,349,405	4,349,550
Cash in transit from financial institutions (note 4)	418,143,680	56,745,946
Assets purchased under reverse repurchase agreements (note 4)	–	1,168,585,000
Loans (note 7)	45,586,163	83,672,373
Premises and equipment (note 8)	263,320	354,685
Accrued interest and other assets	2,060,079	2,789,939
	\$ 539,962,480	\$ 1,762,983,465
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Cash in transit to financial institutions (note 4)	\$ 373,855,200	\$ 361,570,905
Deposits by members	115,838,170	182,816,322
Obligations related to assets sold under repurchase agreements (note 4)	–	1,168,585,000
Future income taxes (note 12)	40,490	40,490
Dividends payable (note 10)	770,000	1,150,000
Accrued interest and other liabilities	2,761,692	2,648,556
	493,265,552	1,716,811,273
MEMBERS' EQUITY:		
Share capital (note 10)	42,724,700	42,724,700
Retained earnings	3,972,228	3,447,492
	46,696,928	46,172,192
Commitments and guarantees (note 13)		
	\$ 539,962,480	\$ 1,762,983,465

See accompanying notes to financial statements.

On behalf of the Board:



Garth Manness
Chairperson



J. Philip Moore
Director

STATEMENT OF EARNINGS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

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

	2010	2009
REVENUE:		
Income from securities	\$ 1,573,803	\$ 1,160,520
Interest from loans	205,125	272,219
Management services	683,019	372,117
Other	226,077	63,575
	2,688,024	1,868,431
EXPENSES:		
Interest	205,686	248,341
Salaries, benefits and variable compensation (note 16)	5,319,772	5,069,026
Technology, administration and other	4,801,908	6,285,975
Amortization of premises and equipment	141,263	183,474
Cost-sharing recoveries	(9,224,222)	(10,932,470)
	1,244,407	854,346
EARNINGS BEFORE SPECIAL STRATEGY COMMITTEE COSTS, REBATE TO MEMBERS AND INCOME TAXES	1,443,617	1,014,085
SPECIAL STRATEGY COMMITTEE:		
Special Strategy Committee costs (note 11)	230,775	2,568,952
Recoveries of Special Strategy Committee costs	(230,775)	(2,568,952)
	-	-
EARNINGS BEFORE REBATE TO MEMBERS AND INCOME TAXES	1,443,617	1,014,085
REBATE TO MEMBERS:		
Cost-sharing assessments (note 15)	148,881	101,281
EARNINGS BEFORE INCOME TAXES	1,294,736	912,804
Income taxes - current (note 12)	238,700	298,721
NET EARNINGS AND COMPREHENSIVE INCOME	1,056,036	614,083
RETAINED EARNINGS, BEGINNING OF YEAR	3,447,492	3,684,688
DIVIDENDS, net of related income tax savings of \$238,700 (2009 - \$298,721) (note 10)	(531,300)	(851,279)
RETAINED EARNINGS, END OF YEAR	\$ 3,972,228	\$ 3,447,492

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

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

	2010	2009
Cash flows provided by (used in)		
OPERATING ACTIVITIES:		
Net earnings	\$ 1,056,036	\$ 614,083
Amortization of premises and equipment	141,263	183,474
Change in non-cash operating items:		
Cash in transit from financial institutions	(361,397,734)	388,557,556
Cash in transit to financial institutions	12,284,295	90,293,459
Deposits by members	(66,978,152)	(47,889,255)
Deposits with the Bank of Canada	381,811,612	(380,787,372)
Held-for-trading investments	(195,832)	(21,590,074)
Assets purchased under reverse repurchase agreements	1,168,585,000	(720,585,000)
Obligations related to assets sold under repurchase agreements	(1,168,585,000)	720,585,000
Income taxes recoverable	-	411,992
Accrued interest and other assets	729,860	(790,724)
Accrued interest and other liabilities	113,136	471,107
	(32,435,516)	29,474,246
FINANCING ACTIVITIES:		
Proceeds from issuance of shares	-	15,000,000
Share redemption	-	(2,000)
Dividends paid	(1,150,000)	(591,639)
Income tax savings from dividends declared	238,700	298,721
	(911,300)	14,705,082
INVESTING ACTIVITIES:		
Proceeds from disposition of available-for-sale securities	145	1,000
Loans	38,086,210	(40,231,077)
Purchase of premises and equipment	(49,898)	(118,998)
	38,036,457	(40,349,075)
INCREASE IN CASH	4,689,641	3,830,253
CASH, BEGINNING OF YEAR	21,802,878	17,972,625
CASH, END OF YEAR	\$ 26,492,519	\$ 21,802,878
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 205,686	\$ 248,340
Income taxes recovered	-	(411,992)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Credit Union Central of Canada ("Canadian Central") is the national trade association and finance facility of all member credit unions and caisses populaires (excluding Quebec) in Canada. Canadian Central provides a national forum, national voice and national services to support and expand the Canadian credit union system. Incorporated by a special act of parliament in 1953 and regulated under the Cooperative Credit Associations Act (Canada), Canadian Central was first established to provide liquidity for the Canadian system. This remains core to its purpose today. At year end, seven provincial credit union centrals (Central 1 Credit Union (British Columbia and Ontario), Credit Union Central Alberta Limited, Credit Union Central of Manitoba, Credit Union Central of New Brunswick, Credit Union Central of Nova Scotia, Credit Union Central of Prince Edward Island and Credit Union Central of Saskatchewan) ("Provincial Centrals") and one federation caisses populaire (L'Alliance des caisses populaires de L'Ontario limitée) comprise the Class A shareholder group of Canadian Central; subsequent to year end the number of Provincial Centrals comprising the Class A shareholder group reduced to five with the creation of the Atlantic Central. The Board of Directors' ten directors are appointed by the Provincial Centrals. In addition, another Provincial Central is a Class B shareholder.

1. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The following is a summary of significant accounting policies followed by Canadian Central:

[a] Financial instruments:

Financial assets and financial liabilities are initially recognized at fair value, except for certain related party transactions, and are recognized on the balance sheet. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net earnings. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those classified as held-for-trading are measured at amortized cost using the effective interest method. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recognized in other comprehensive income. Classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and Canadian Central's designation of such instruments. Canadian Central has not designated any non-derivative financial liabilities as held-for-trading.

The majority of financial assets are classified as loans and receivables and financial liabilities classified as other financial liabilities. These instruments are, as a result, measured at amortized cost. Canadian Central did not classify any financial instruments as held-to-maturity.

At December 31, 2010, Canadian Central was not party to any hedging relationships.

[b] Held-for-trading investments:

Held-for-trading investments are recorded at fair value on the balance sheet. Realized and unrealized gains and losses and interest income on held-for-trading investments are recorded in income from securities. Fair value is determined based on quoted market prices in an active market. When the market is not active, fair value is determined using a valuation technique that makes maximum use of inputs observed from markets.

[c] Available-for-sale securities:

Available-for-sale securities include investments in co-operative enterprises which are primarily equity securities and are recorded at cost because they are not securities quoted in an active market. Realized gains and dividend income are recorded in income from securities.

[d] Assets purchased under reverse repurchase agreements and sold under repurchase agreements:

Securities purchased under agreements to resell and securities sold under agreements to repurchase represent short-term funding transactions and are collateralized by liquid short-term securities. These transactions are carried at the amounts at which the securities were initially acquired or sold.

[e] Premises and equipment:

Premises and equipment are recorded at cost less accumulated amortization. Assets costing less than \$2,000 each are expensed in the year acquired. Amortization is calculated using the straight-line method at rates so as to fully amortize the assets over their estimated useful lives as follows:

Computer equipment	3 years
Computer software and licenses	3 years
Furniture and equipment	5 years
Leasehold improvements	5 - 9 years (lease term)

[f] Translation of foreign currencies:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rates of exchange at year end. Revenue and expenses are translated at the average rates of exchange in effect throughout the year. Foreign exchange translation gains and losses and unrealized gains and losses on foreign currency contracts are recorded in earnings in the year in which they occur.

[g] Income taxes:

Canadian Central follows the asset and liability method of accounting for corporate income taxes. Under this method, future tax assets and liabilities represent the amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable earnings in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in earnings in the year in which the tax rate change was enacted or substantively enacted.

[h] Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include those relating to the fair valuation of financial instruments and income taxes. For this reason, actual results could differ from those and other estimates.

NOTES TO FINANCIAL STATEMENTS

[i] Future accounting policies:

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Canadian Central meets the definition of a publicly accountable enterprise. As such, Canadian Central will prepare the 2011 financial statements, including comparative information, in compliance with IFRS.

2. FINANCIAL INSTRUMENTS - RECOGNITION AND MEASUREMENT:

[a] Fair values:

The fair value of a financial instrument is the amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of cash, deposits with the Bank of Canada, cash in transit to/from financial institutions, assets purchased under reverse repurchase agreements, loans, accrued interest and other assets, deposits by members, obligations related to assets sold under repurchase agreements, and accrued interest and other liabilities are assumed to approximate their carrying values, due to their short-term nature.

[b] Fair value hierarchy:

The extent of Canadian Central's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities is as follows:

	2010	
	Available-for-sale securities	Trading securities
Value using quoted market prices (Level 1)	\$ -	\$ -
Valued using internal models (with observable inputs) (Level 2)	-	42,731,511
Valued using internal models (without observable inputs) (Level 3)	4,349,405	-
	\$ 4,349,405	\$ 42,731,511

	2009	
	Available-for-sale securities	Trading securities
Value using quoted market prices (Level 1)	\$ -	\$ -
Valued using internal models (with observable inputs) (Level 2)	-	41,019,637
Valued using internal models (without observable inputs) (Level 3)	4,349,550	1,516,042
	\$ 4,349,550	\$ 42,535,679

3. FINANCIAL INSTRUMENTS - RISK MANAGEMENT:

Canadian Central is exposed to a variety of risks as a result of holding financial instruments. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. Canadian Central manages these risks in accordance with established policies that limit Canadian Central's investments to high quality and liquid instruments, principally debt instruments issued by Canadian government entities and/or highly rated corporates. The financial goals of Canadian Central's investment activities are in descending order of priority, the safety of principal, matching liquidity and yield.

Canadian Central has established policies and related reporting processes to manage its exposure to fluctuating interest rates (interest rate risk) and exposure to financial loss resulting from the failure of a party to honour its financial or contractual obligations (credit risk). A source of Canadian Central's income for 2010 was financial margin, which is the difference between interest earned on investments and loans and interest paid on deposits and borrowings.

- [a] Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Canadian Central manages market risk by establishing investment policies detailing acceptable levels of risk, limits and investment quality. Compliance with the policies is monitored daily. Canadian Central does not generally enter into derivative agreements and its investment policy details under what limited circumstances the use of derivatives is acceptable.

Market risk comprises the following principal risks:

- [i] Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Canadian Central's interest-bearing investments are exposed to interest rate risk. On average, 61% of Canadian Central's "earning asset" portfolio, consists of assets subject to interest rate changes. Based on the December 31, 2010 balance of assets in the portfolio subject to interest rate risk, a 1% increase (decrease) in interest rates (decreases) increases Canadian Central's investment earnings by (\$67,114) \$85,172, respectively.
- [ii] Price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Canadian Central is not exposed to significant price risk.
- [b] Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The principal source of credit risk for Canadian Central arises in the course of Canadian Central's clearing and settlement role. Canadian Central establishes credit limits in the course of its daily clearing activities and pledges collateral to the Bank of Canada. In addition, Canadian Central maintains a secured line of credit with the Bank of Canada. In order to mitigate its credit risk, credit limits have been established for Canadian Central's arrangements with counterparties.

NOTES TO FINANCIAL STATEMENTS

All receivables are current and are due in 30 days (note 7).

Canadian Central has extended credit under a line of credit established for CUIC Inc. In addition, in 2010, Canadian Central had outstanding loans to its subsidiaries which were secured by assets in the two subsidiaries. Loans to subsidiaries were repaid in full prior to year-end.

The carrying amounts of financial assets on the balance sheet represent Canadian Central's maximum credit exposure at the balance sheet date.

[c] Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Canadian Central manages liquidity risk by restricting the level of investments in instruments with maturities exceeding one year and restricting such maturities to 63 months or less. It also requires that investments meet the investment guidelines. Canadian Central maintains the following specific liquidity risk management policies:

[i] The term of any one investment shall not exceed one year except as allowed in section (ii) below.

[ii] Up to 50% of Canadian Central's portfolio may be invested for terms of greater than one year but less than five years and three months. For greater certainty, this restriction is exclusive of investments in shares of corporations which may only be made with the approval of the Board of Directors.

[iii] The average term of the portion of Canadian Central's portfolio that corresponds to deposits, shall closely match the term of these obligations.

On December 31, 2010, Canadian Central's liquidity position was in compliance with these policies.

All liabilities are current and are due within one year.

4. CASH IN TRANSIT AND ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

Canadian Central acts as the Group Clearer for cash in transit that arises from the clearing settlement system for a group of its member provincial credit union Centrals ("Provincial Centrals") (note 9).

Canadian Central has a line of credit facility with the Bank of Canada in respect of its function as direct clearer on behalf of five Provincial Centrals in the Canadian Payments Association. This line of credit is limited by, and secured with government-guaranteed securities lodged by the Provincial Centrals.

In September 2008, the Bank of Canada agreed to permit credit unions access to Purchase and Resale Agreements ("PRAs"). Under the PRAs, the Bank of Canada purchases marketable securities from Canadian Central which is then obligated to repurchase the securities from the Bank of Canada at a fixed short-term future date. Canadian Central, in its role as Group Clearer, entered into PRAs with the Bank of Canada on behalf of Provincial Centrals, resulting in equally offsetting assets and liabilities on its balance sheet because all transactions were entered on a back-to-back basis supported by agreements between Canadian Central and the participating Provincial Centrals, and an agreement between Canadian Central and the Bank of Canada. Because of the offsetting nature of these transactions, they were exempted from Canadian Central's statutory capital requirements. This program ended in 2010.

5. HELD-FOR-TRADING INVESTMENTS, AT FAIR VALUE

						2010	2009
	Within 1 year	1 - 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total	Total
Canadian provincial and municipal governments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate debt	22,707,830	14,909,478	5,114,203	-	-	42,731,511	41,019,637
MAV notes	-	-	-	-	-	-	1,516,042
	\$22,707,830	\$14,909,478	\$5,114,203	\$ -	\$ -	\$42,731,511	\$42,535,679

Held-for-trading investments include money market instruments with maturities ranging up to 90 days and corporate debentures that mature within three years. The money market instruments typically pay interest at maturity while the corporate debentures typically pay interest on a semi-annual basis. These instruments earn interest at a weighted average interest rate of 2.2% (2009 - 2.9%). With the exception of the MAV notes, fair value is determined based on quoted market prices.

In 2010, Canadian Central disposed of its MAV Notes portfolio, generating a gain of \$176,440, which is included in net income for the period. Therefore, as at December 31, 2010, the fair value of the converted MAV notes was nil (2009 - \$1,516,042).

The total unrealized change in fair value recognized in net income for held-for-trading securities was a loss of \$8,926 (2009 - gain of \$52,541).

6. AVAILABLE-FOR-SALE SECURITIES

Available-for-sale securities include cooperative investments in equity securities of co-operative enterprises of \$4,349,405 (2009 - \$4,350,550) which are primarily equity securities and are recorded at cost because they are not securities quoted in an active market. Management reviews available-for-sale securities on an annual basis to identify and evaluate investments that show indications of possible impairment. An investment is written down to fair value when its unrealized losses represent impairment that is considered to be other than temporary. In determining whether a loss is temporary, factors considered include the financial condition and near-term prospects of the issuer, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other than temporary, a write-down is recorded in Canadian Central's statement of earnings, comprehensive income and retained earnings.

NOTES TO FINANCIAL STATEMENTS

7. LOANS

	2010	2009
Provincial Centrals	\$ 45,083,598	\$ 83,485,252
CUIC INC.	492,565	177,121
Loans - EFI	\$ 10,000	\$ 10,000
	\$ 45,586,163	\$ 83,672,373

All loans to Provincial Centrals are due within one month. At December 31, 2010, Canadian Central has granted lines of credit to members for operating purposes in the aggregate amount of \$468,600,000 (2009 - \$468,600,000), including amounts loaned. Canadian Central has also granted a line of credit to CUIC Inc. for \$350,000 (2009 - \$250,000). The line of credit for CUIC Inc., of which Canadian Central is the sole shareholder, is made available to finance its short-term operational needs, bridging gaps between collections and payments. The line of credit is supported by a loan agreement and is subject to annual review. At December 31, 2010, amounts drawn against the line totalled \$286,813 (2009 - \$177,121). Other amounts include management fees accrued and unpaid at year end.

Pursuant to the terms of the National Liquidity Fund Agreement, Canadian Central has immediate access to the liquidity pool assets, segregated and held by Provincial Centrals, to enable it to fulfil its current responsibilities as a direct clearer of the Bank of Canada and a member of the Canadian Payments Association.

Loans are stated net of an allowance for credit losses. A loan is impaired when, in management's opinion, there has been a deterioration in the credit quality to the extent that there is no longer reasonable assurance as to the timely collection of principal and interest.

8. PREMISES AND EQUIPMENT:

	2010			2009
	COST	ACCUMULATED AMORTIZATION	NETBOOK VALUE	NETBOOK VALUE
Computer equipment	\$ 622,191	\$ 540,683	\$ 81,508	\$ 89,453
Computer software and licenses	41,056	41,056	-	-
Furniture and equipment	606,405	595,034	11,371	27,752
Leasehold improvements	585,751	415,310	170,441	237,480
	\$ 1,855,403	\$ 1,592,083	\$ 263,320	\$ 354,685

9. CLEARING SYSTEM ACTIVITY:

Canadian Central performs several important roles within the credit union clearing system. These include activities relating to Group Clearing Agreements with members. The following summarized balance sheet isolates the financial impact of these activities. All balances represent items with a settlement term of less than 90 days.

	2010		
ASSETS	BALANCE SHEET	CLEARING SYSTEM BALANCE	NON-CLEARING BALANCE SHEET
Cash	\$ 26,492,519	\$ 26,151,914	\$ 340,605
Deposits with the Bank of Canada	335,803	335,803	–
Held-for-trading investments	42,731,511	–	42,731,511
Available-for-sale securities	4,349,405	–	4,349,405
Cash in transit from other financial institutions	418,143,680	418,143,680	–
Loans	45,586,163	45,083,598	502,565
Other	2,323,399	2,387	2,321,012
	\$ 539,962,480	\$ 489,717,382	\$ 50,245,098
LIABILITIES AND MEMBERS' EQUITY			
Cash in transit to financial institutions	\$ 373,855,200	\$ 373,855,200	\$ –
Deposits by members	115,838,170	115,823,170	15,000
Other	3,572,182	39,012	3,533,170
TOTAL LIABILITIES	493,265,552	489,717,382	3,548,170
MEMBERS' EQUITY	46,696,928	–	46,696,928
	\$ 539,962,480	\$ 489,717,382	\$ 50,245,098

	2009		
ASSETS	BALANCE SHEET	CLEARING SYSTEM BALANCE	NON-CLEARING BALANCE SHEET
Cash	\$ 21,802,878	\$ 21,000,988	\$ 801,890
Held-for-trading investments	42,535,679	–	42,535,679
Available-for-sale securities	4,349,550	–	4,349,550
Deposits with the Bank of Canada	382,147,415	382,147,415	–
Cash in transit from other financial institutions	56,745,946	56,745,946	–
Assets purchased under reverse repurchase agreements	1,168,585,000	1,168,585,000	–
Loans	83,672,373	83,485,252	187,121
Other	3,144,624	15,925	3,128,699
	\$ 1,762,983,465	\$ 1,711,980,526	\$ 51,002,939
LIABILITIES AND MEMBERS' EQUITY			
Cash in transit to financial institutions	\$ 361,570,905	\$ 361,570,905	\$ –
Deposits by members	182,816,322	181,791,716	1,024,606
Obligations related to assets sold under repurchase agreements	1,168,585,000	1,168,585,000	–
Other	3,839,046	32,905	3,806,141
TOTAL LIABILITIES	1,716,811,273	1,711,980,526	4,830,747
MEMBERS' EQUITY	46,172,192	–	46,172,192
	\$ 1,762,983,465	\$ 1,711,980,526	\$ 51,002,939

NOTES TO FINANCIAL STATEMENTS

10. SHARE CAPITAL:

	2010	2009
Authorized:		
2,500,000 shares without par value		
Issued:		
427,256 shares	\$ 42,724,700	\$ 42,724,700

On approval of the Board of Directors, shares are redeemable at the option of Canadian Central at the lower of fair market value and the amount paid thereon pursuant to provisions in Canadian Central's by-laws. As required by the Cooperative Credit Associations Act, such redemptions are limited in any fiscal year to 1% of the issued shares outstanding at the beginning of the fiscal year. Any redemption in share capital exceeding this amount requires regulatory approval.

During 2010, nil shares were redeemed (2009 - nil). In 2010, nil shares were issued (2009 - 150,000) for nil (2009 - \$15,000,000).

Dividends are payable at the discretion of the Board of Directors. The Board of Directors approved a dividend payment of 1.8% to shareholders of record on December 17, 2010 in the amount of \$770,000 payable on February 25, 2011 (2009 - \$1,150,000).

Dividends payable in respect of share capital are deductible in the determination of taxable income and the resulting tax savings of \$238,700 (2009 - \$298,721) are netted from the dividends in the statement of earnings, comprehensive income and retained earnings.

11. SPECIAL STRATEGY COMMITTEE:

The Special Strategy Committee was formed by the Board of Directors for the purpose of planning the credit union system's response to both the opportunities and challenges that are presented by potential bank mergers. In addition, a strategy was developed to improve the positioning of the credit union system and the small- and medium-sized enterprise market and a project was established. Costs incurred in 2010 for this project amounted to \$230,755 (2009 - \$2,568,952) and were allocated to the Provincial Centrals under a cost-sharing formula.

12. INCOME TAXES:

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

	2010	2009
Premises and equipment	\$ 33,202	\$ 49,384
Intangible assets capitalized for tax	135,828	146,051
Reserves	30,019	30,019
Non-capital loss carryforwards	\$ 33,352	\$ 133,805
	232,401	359,259
Less valuation allowance	232,401	359,259
Future income tax asset	\$ -	\$ -

Non-capital loss carryforwards expire as follows:

2029	\$ 133,409
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Set out below is a reconciliation of statutory tax rates and income taxes that would be payable at these rates to the effective income tax rates and provisions for income taxes recorded in the statement of earnings, comprehensive income and retained earnings:

	2010		2009	
Earnings before income taxes	\$ 1,294,736		\$ 912,804	
Combined Canadian federal and provincial income taxes at the statutory tax rate	\$ 401,368	31.0 %	\$ 301,226	33.0 %
Increase (decrease) resulting from:				
Non-deductible expenses	11,138	0.9 %	14,644	1.6 %
Utilization of losses related to previous	(141,238)	(10.9)%	–	–
Other	(32,568)	(2.5)%	(17,149)	(1.9)%
Provision for income taxes and effective rates	\$ 238,700	18.5 %	\$ 298,721	32.7 %

13. COMMITMENTS AND GUARANTEES:

Canadian Central is a Group Clearer under the rules of the Canadian Payments Association (the “CPA”). In addition to Canadian Central, the members of the Canadian Central Group are Central 1 Credit Union, Credit Union Central Alberta Limited, Credit Union Central of Saskatchewan, and Credit Union Central of Manitoba (the “Centrals”). Under the rules of the CPA, Canadian Central:

- [a] guarantees payment of payment items drawn on or payable by the Centrals and their member credit unions; and
- [b] must give the CPA at least 30-day prior notice before it can make a change in the composition of the Canadian Central Group and cease acting as Group Clearer for a Central.

Canadian Central is committed to this contingent guarantee under the Canadian Central Group Clearing Agreement (the “Group Clearing Agreement”). Pursuant to the Group Clearing Agreement, the Centrals, severally, indemnify Canadian Central for all payment items drawn on or payable by the Central or its member credit unions and, in the event of the failure of a Central to honour its guarantee, the remaining Centrals, jointly and severally, indemnify Canadian Central for all payment items drawn on or payable by any Central or its member credit unions.

Canadian Central estimates annual rental payments for leased premises, of which 2011 and 2012 are committed, as follows:

2011	\$ 809,584
2012	835,378
2013	862,070
2014	892,102
2015	918,263
	\$ 4,317,397

14. LINES OF CREDIT:

Canadian Central has available lines of credit for borrowing in the amount of \$6,000,000 (2009 - \$6,000,000).

NOTES TO FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS:

Canadian Central, as a financial cooperative, conducts essentially all of its transactions, except security transactions and external borrowings, with its members. Canadian Central also provides services to and receives services from CUIC Inc., a wholly owned subsidiary. In addition, Canadian Central provides services to the Cooperative Node Services Committee and the Cooperative Electronic Development Association pursuant to management services agreements with each organization. Finally, Canadian Central also undertakes various cost-sharing programs, which are member-funded based on accepted formulae, for the benefit of its members.

The Board of Directors approved a rebate of cost-sharing assessments of \$148,881 (2009 - \$101,281), which will be paid to participants based on the assessment support formula for specific products and services. The payment of the rebate is a result of income and cost-sharing recoveries exceeding the costs of services provided to members.

16. PENSION PLAN:

Canadian Central and its employees contribute to a defined contribution pension plan. The pension expense for the year ended December 31, 2010 was \$186,340 (2009 - \$186,182).

17. CAPITAL MANAGEMENT:

Canadian Central's objectives when managing capital are:

- [a] to employ capital to achieve Canadian Central's strategic objectives within the risk parameters authorized by its Board of Directors;
- [b] to invest in financial assets prudently, earning a reasonable return within its established market and credit risk and liquidity criteria; and
- [c] to protect the investment by its members in Canadian Central and ensure that regulatory capital requirements are satisfied.

The Cooperative Credit Associations Act, Canada requires Canadian Central to maintain adequate capital. The Office of the Superintendent of Financial Institutions ("OSFI") assesses and monitors Canadian Central to ensure it maintains adequate capital. Canadian Central is required to meet a borrowing multiple test. The borrowing multiple is calculated by dividing Canadian Central's total borrowings (excluding liabilities related to PRA Auctions) by its total consolidated capital. Capital includes members' equity and retained earnings. Goodwill and other items prescribed by OSFI are deducted from capital. Borrowings comprise total deposit liabilities and other loans payable. Total borrowings should be no greater than 20 times capital. This multiple can be exceeded only with OSFI's prior approval. Aggregate borrowings, deposits accepted and debt guarantees granted may not exceed 20 times total consolidated members' equity.

At December 31, 2010, such obligations outstanding were approximately 10.49 (2009 - 11.79) times total consolidated members' equity. Canadian Central's total capital levels as at December 31, 2010 was \$46,696,928 (2009 - \$46,172,192) and its total borrowings were \$489,693,370 (2009 - \$544,389,315).

18. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

SHAREHOLDER MEMBERS

AS OF DECEMBER 31, 2010

Class A

Central1 Credit Union
Credit Union Central Alberta Limited
Credit Union Central of Manitoba
Credit Union Central of New Brunswick
Credit Union Central of Nova Scotia
Credit Union Central of Prince Edward Island
Credit Union Central of Saskatchewan
L'Alliance des caisses populaires de l'Ontario limitée

Class B

Central Alliance for Newfoundland and Labrador Credit Unions Limited
Credit Union Central of Newfoundland & Labrador

Class C

Canadian Alternative Investment Co-op
Canadian Co-operative Association
COLAC (Confederacion Latinoamericana de Cooperativas de Ahorro Y Credito)
Concentra Financial Services Association
Co-op Atlantic
Cooperative EFT Development Association (CEDA)
Co-operative Housing Federation of Canada
Co-operators General Insurance Company
Co-operators Life Insurance Company
CUMIS General Insurance Company
CUMIS Life Insurance Company
CUNA Mutual Insurance Society
Farmers Co-operative Dairy Limited
Fogo Island Co-operative Society
Gay Lea Foods Co-operative Limited
National Association of Canadian Credit Unions (NACCU)
North Carolina Credit Union League
Scotian Gold Co-operative Limited
U.S. Central Credit Union

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Central of Canada**

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