momentum™
CREDIT UNION
now you're getting somewhere

2010 Annual Report

Our future is bright

Index

Board of Directors Report

I am pleased to present the first report of the Chair and Board of Directors to the membership of the new Momentum Credit Union. 2010 was a year of significant change for your Credit Union as the former Hamilton Community Credit Union and Twin Oak Credit Union's amalgamated to create Momentum Credit Union. We now have 4 branches to serve you and are able to provide for all of your financial needs.

The Boards of both predecessor organizations recognized the realities of a dynamic and competitive marketplace and the additional complexities and costs associated with a changing regulatory environment. We looked at our memberships, the products and services that we offered and with a view to our long-term future we agreed that this amalgamation was the right path forward in order to ensure that we are able to serve you for years to come. You agreed and voted overwhelmingly in favour of the amalgamation.

While the Amalgamation took up the vast majority of both Boards time and deliberations I am pleased to report that the operations of both former Credit Unions were solid and that Twin Oak in particular had an exceptional year with overall asset growth of in excess of 11% and income of over $460,000 before distributions and taxes. Both of the former boards met monthly and had a number of special meetings throughout the year as did their committees. The bulk of the work was done by two Members of both Boards who formed the Steering Committee. I want to recognize them for their unselfish dedication and input.

The Audit Committees of both the former HCCU and TOCU were busy ensuring that the organization's financial operations were well controlled and in compliance with recently enacted changes to the Credit Union and Caisses Populaires Act and that the organizations were ready for the upcoming conversion from Canadian Generally Accepted Accounting Practices (GAAP) to the International Financial Reporting Standards (IFRS).

Both HCCU's and TOCU's Member Services Committee continued their focus on ensuring member satisfaction through innovation. New products and services are being considered and it is hoped that these will be available to Momentum Members in the coming months. The new Momentum Credit Union Member Service Committee will focus on member service, communication, marketing and charitable giving, for the new organization.

Momentum Credit Union is excited about the opportunities that lay ahead as we shift our focus to the implementation of our 2011 operating plans and the development of longer term strategic plans. As always we wouldn't be here if it weren't for the continued support of the membership. We appreciate your commitment to the Credit Union and we look forward to offering you even better products, services and advice. Finally, I will also thank the staff who really are the heart of the Credit Union, without their passion and dedication we wouldn't be where we are today.

Thanks again for your continued patronage and support. We look forward to serving you for many years to come as Momentum Credit Union. On behalf of the Board of Directors I would ask each and every one of you to become embasadors for YOUR Credit Union by spreading the word about the benefits of belonging to MOMENTUM CREDIT UNION. Word of mouth is worth more than any advertising we could develop or buy.

Sincerely,

Bill Van Gaal

Bill Van Gaal
Chair of the Board
Momentum Credit Union

President and CEO Report

It is my honour to present the first report of the President and CEO of Momentum Credit Union and the results of our 2010 operations as well as some of our plans for 2011 and beyond. 2010 was dominated from a management perspective with the successful negotiation of an amalgamation agreement between the former Twin Oak Credit Union and the former Hamilton Community Credit Union, the development of the accompanying business case and budget, the implementation of the Momentum communication plan and the overwhelmingly positive member and shareholder votes.

From an operating and financial perspective, both the former HCCU and the former TOCU had excellent years. TOCU saw record growth and profitability with assets increasing year over year by roughly 8 million or 11%. Year end income of over $460,000 before distributions and taxes was their best result ever. HCCU's eleven months of operation saw overall lending growth of almost 6%, the first significant growth in the lending portfolio seen in many years and profitability of approximately $400,000 before taxes and distributions was in line with recent results.

As we move forward into 2011, Momentum has a busy year ahead. Most significantly the organization is undertaking a banking system conversion that is expected to take place in the third quarter. This conversion will see a move from the legacy systems in place at both the former Credit Unions to a new and modern system that will be more stable and reliable, allow for simple and timely implementation of new products and services as well as new delivery channels, including mobile banking. Upon conversion you will see a new Internet banking interface, hear a new telephone banking system and new CHIP debit cards will follow shortly thereafter.

We will continue to review the operations for improvement in Member Service and we will implement programs intended to reduce errors and streamline processes. We will focus on the development of new products and services and will work to ensure that we are able to continue offering those products and services on a low or no fee basis. Further, we will continue to work with community and industry partners to grow our membership to ensure the long term viability of Momentum.

As the regulatory environment continues to evolve Momentum will ensure that it is in compliance with anticipated changes to capital and liquidity rules and guidelines as well as changes to accounting standards and financial reporting both to the members and regulators. Momentum will continue its active involvement within the Credit Union system in order to ensure that we are not only in compliance but that we are implementing best practices as appropriate.

We wouldn't be where we are today without the support of all staff and management and I would like to take this opportunity to thank all the Momentum Staff for their continued dedication to the success of the Credit Union and their focus on providing exceptional service and advice to the membership. I would also like to thank the Management team for their support of both the work that went into the successful amalgamation and to the implementation of the 2011 Operating Plan. I would also, like to thank the Board of Directors for their support and guidance as we move forward into 2011 and beyond.

Finally, I will thank the membership for their continued patronage and support of the new Credit Union. We recognize that there is a lot of change at the Credit Union and we ask for your patience as we work to bring the two organizations together into a new and better Credit Union able to serve you long into the future. There will undoubtedly be some minor issues along the way, but we are confident that we will get through them in order to be a stronger Credit Union for the future.

Co-operatively yours,

Malcolm Stoffman
President and CEO
Momentum Credit Union

Audit Committee Report

Momentum Credit Union and its predecessor Credit Unions (Hamilton Community Credit Union and Twin Oak Credit Union) have maintained an Audit Committee pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994. The Audit Committee, which consists of five directors meets at least quarterly and has adopted a mandate which covers all of the duties in the Regulations to the Act as required.

As delegated by the Board of Directors, the Audit Committee has primary responsibility for review of audited financial statements, internal controls, accounting policies and reporting procedures and it has primary contact with both the internal and external auditors.

For the year ended December 31, 2010, the Audit Committee met 7 times.

The Audit Committee has undertaken a number of significant activities over the past year as the Momentum Credit Union planned and prepared for the adoption of International Financial Reporting Standards (IFRS) and to meet all of its regulatory and membership reporting and disclosure requirements, both prior to and as a result of the amalgamation.

The Audit Committee is effectively conducting its affairs in accordance with the Act and Regulations and continues to receive full co-operation from the Credit Union's management. There were no significant recommendations made by the Audit Committee or a previous Audit Committee that have not been implemented or are in the process of being implemented.

In 2010 members of the Audit Committee participated in a number of training sessions in order to ensure that they were able to effectively carry out their duties and responsibilities.

The Audit Committee is not aware of any other matters that are required to be disclosed pursuant to the Act or the Regulations.

Respectfully submitted by the Audit Committee.

David Edwards (Chair), Rick Burbridge, Mark Chagnon, Sharon Miller and John Novak

Independent Auditors' Report

To the Members of
Momentum Credit Union Limited

We have audited the accompanying financial statements of Momentum Credit Union Limited, which comprise the balance sheet as at December 31, 2010, and the statements of income, undivided earnings, reserves, accumulated other comprehensive income, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Momentum Credit Union 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.

February 23, 2011

Millard, Rouse & Rosebrugh LLP

CHARTERED ACCOUNTANTS
Licensed Public Accountants

Balance Sheet

As at December 31	2010	2009
ASSETS		
Cash and bank	19,598,803	4,967,767
Accounts receivable	734,359	32,461
Derivative financial instruments (Note 4)	380,942	-
Prepaid expenses	335,638	109,257
Income taxes recoverable	203,289	35,096
Loans Receivable (Note 5)	121,747,820	59,914,245
Investments (Note 7)	19,603,735	14,912,188
Property, Plant and Equipment (Note 8)	1,631,485	265,569
Future Income Taxes	204,537	2,366
Deferred pension costs (Note 9)	389,450	-
Goodwill	1,015,324	-
	165,845,382	80,238,949
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	368,742	385,638
Obligation for post-retirement benefits other than pensions (Note 10)	1,205,550	-
	1,574,292	385,638
Members' Deposits (Note 11)	151,342,942	72,269,347
Members' Shares (Note 12)	4,556,479	1,626,441
	157,473,713	74,281,426
MEMBERS' EQUITY		
Undivided Earnings	(587,762)	204,536
Contributed Surplus	3,048,214	-
Reserve for Contingencies	5,957,523	5,752,987
Accumulated Other Comprehensive Income	(46,306)	-
	165,845,382	80,238,949

Approved on behalf of the Board of Directors:

Bill Van Gaal

Bill Van Gaal, Chair, Board of Directors

David Edwards, Chair, Audit Committee

See accompanying notes.

Statement of Income

For the year ended December 31	2010	2009
Interest Revenue (Note 14)	3,478,487	3,361,084
Interest Expense (Note 15)	907,076	978,513
Interest Margin	2,571,411	2,382,571
Other Income	423,360	286,084
Income before Operating Expenses	2,994,771	2,668,655
Operating Expenses		
Salaries and benefits	1,275,432	1,163,794
Data processing	191,096	131,642
Administration	555,610	389,906
Insurance	215,165	230,082
Collection and Bad Debts	115,912	131,005
Occupancy	122,215	118,343
Board and committee	40,272	57,766
Amortization	63,290	36,865
	2,578,992	2,259,403
Income Before Dividends, Rebates and Income Taxes	415,779	409,252
Dividends and rebates (Note 16)	(1,104,186)	(167,598)
Gain on disposal of property, plant and equipment	-	3,000
Loss Before Income Taxes	(688,407)	244,654
Provision for Income Taxes - Current (Note 17)	(123,702)	41,938
- Future	23,057	(1,166)
	(100,645)	40,772
Net Loss	(587,762)	203,882

See accompanying notes.

Statement of Undivided Earnings, Reserves & Accumulated Other Comprehensive Income

For the year ended December 31	2010	2009
Undivided Earnings		
Balance - Beginning of Year	204,536	310,397
Net Income	(587,762)	203,882
Less: Appropriation to Reserve for Contingencies	(204,536)	(309,743)
Balance - End of Year	(587,762)	204,536
Reserve for Contingencies		
Balance - Beginning of Year	5,752,987	5,443,244
Allocation from Undivided Earnings	204,536	309,743
Balance - End of Year	5,957,523	5,752,987
Accumulated Other Comprehensive Income		
Balance - Beginning of Year	-	-
Other comprehensive income for the year	(46,306)	-
Balance - End of Year	(46,306)	-

See accompanying notes.

Statement of Comprehensive Income

For the year ended December 31	2010	2009
Net Income (loss)	(587,762)	203,882
Other comprehensive income (loss), net of income taxes		
Net income on derivative instruments designated as cash flow hedges	(46,306)	-
Other comprehensive income for the year	(46,306)	-
Comprehensive income for the year	(634,068)	203,882

See accompanying notes.

Statement of Cash Flows

For the year ended December 31	2010	2009
Cash Flows From Operating Activities		
Net Loss	(587,762)	203,882
Charges (credits) to income not involving cash		
Amortization	63,290	36,865
Gain on disposal of property, plant and equipment	-	(3,000)
Future income taxes	23,057	(1,166)
Provision for doubtful loans	95,239	121,671
	(406,176)	358,252
Net change in non-cash working capital balances related to operations	(446,569)	(121,551)
	(852,745)	236,701
Cash Flows From Financing Activities		
Contributed surplus on amalgamation	3,048,213	-
Members' deposits and shares	82,003,633	(1,020,152)
	85,051,846	(1,020,152)
Cash Flows From Investing Activities		
Investments	(4,701,146)	5,024,332
Purchase of property, plant and equipment	(1,429,206)	(113,363)
Purchase of goodwill	(1,015,324)	-
Working capital and other assets acquired on amalgamation	(493,575)	-
Proceeds on disposal of property, plant and equipment	-	3,000
Loans to members	(61,928,814)	(972,671)
	(69,568,065)	3,941,298
Net Increase in Cash and Cash Equivalents	14,631,036	3,157,847
Opening Cash and Cash Equivalents	4,967,767	1,809,920
Closing Cash and Cash Equivalents	19,598,803	4,967,767

See accompanying notes.

Notes to the Financial Statements

For the year ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement

Financial statements are based on representations that may require estimates to be made in anticipation of future transactions and events and include measurement that may, by their nature, be approximations.

(b) Property, Plant and Equipment and Amortization

Property, plant and equipment are stated at cost. Amortization is provided for in the accounts as follows:

Building	5% declining balance
Paved parking lots	4% declining balance
Leasehold improvements	15 years straight line
Furniture and fixtures	20% declining balance
Computer equipment	3 years straight line
ATM Machine	7 years straight line

In the year of acquisition, amortization is pro-rated based on the number of months in use. No amortization is provided for in the year of disposal.

(c) Allowance for Doubtful Loans

Effective July 1, 1981, the Deposit Insurance Corporation of Ontario introduced By-Law #6 governing the method of calculation of the allowance for doubtful loans. The 2010 allowance for doubtful loans has been calculated in accordance with By-Law #6 inclusive of all amendments.

(d) Financial Instruments

Financial instruments are initially recognized at fair value. Subsequent measurement is based on the classification of the financial instrument. The credit union has adopted a policy to classify all financial instruments as follows:

(i) Cash and bank are classified as Held for Trading and measured at fair value.
(ii) All debt investments with Central 1 Credit Union and Concentra Financial are classified as Loans and Receivables as there is no active market. These assets are measured at amortized cost using the effective interest rate method.
(iii) Other marketable debt investments with fixed terms are classified as Held to Maturity and measured at amortized cost using the effective interest rate method.
(iv) Other equity investments are classified as Available for Sale and measured at cost as there is no active market for these investments.
(v) Loans and mortgages are classified as Loans and Receivables, measured at amortized cost using the effective interest rate method.
(vi) Accounts Payable, Member Deposits, and Member Shares are classified as Other Liabilities and measured at amortized cost.
(vii) Purchases and sales of financial instruments are accounted for at trade date.
(viii) Transaction costs on financial assets and liabilities are expensed as incurred.

(e) Revenue Recognition

Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured.

(f) Market Based Deposits

The credit union has various deposits from members whereby interest will be paid based on certain market indicators. To hedge against fluctuations in these indicators, the credit union has entered into contracts with Central 1 Credit Union (Central 1) whereby Central 1 will pay the interest on these deposits. In return, the credit union will pay a fixed rate of interest to Central 1 on these deposits. This interest is paid upon issuance of the deposit and is reflected as a prepaid expense, amortized on a straight-line basis over the term of the contract. The return on these deposits, based on the corresponding market indicators, is recorded as a receivable from Central 1, and an accrued interest payable to members.

(g) Derivative Instruments

The credit union periodically enters into derivative contracts to manage financial risks associated with movements in interest rates. The credit union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposures, the credit union determines for each derivative whether hedge accounting can be applied. Where hedge accounting is applied, a hedge relationship is designated as a cash flow hedge of a specifically identified group of assets or liabilities. The credit union formally assesses and documents whether these derivatives are effective in offsetting changes in cash flows of hedged assets or liabilities.

Notes to the Financial Statements

For the year ended December 31, 2010

2. CHANGE IN ACCOUNTING POLICIES

The credit union has adopted CICA Handbook section 1582, Business Combinations, effective January 1, 2010, to record the amalgamation of the former Hamilton Community Credit Union Limited and Twin Oak Credit Union Limited. Section 1582 requires business combinations to be recorded by applying the acquisition method.

3. AMALGAMATION OF HAMILTON COMMUNITY CREDIT UNION AND TWIN OAK CREDIT UNION

On December 1, 2010, Hamilton Community Credit Union Limited ("HCCU") and Twin Oak Credit Union Limited ("TOCU") were amalgamated into a new legal entity named Momentum Credit Union Limited. The amalgamation was agreed upon by the respective memberships of both predecessor credit unions. This amalgamation was undertaken to provide a stronger financial position, increased value to members, increased convenience through more branch locations, diversification, and increased services.

In accordance with CICA Handbook section 1582, Business Combinations, one of the predecessor corporations is required to be identified as an acquirer and one must be identified as the acquire. HCCU was determined to be the acquirer for purposes of this section. Consequently the financial statements include the results of operations for the 11 months ended November 30, 2010 for HCCU in addition to the 1 month ended December 31, 2010 for the newly formed Momentum Credit Union Limited.

No consideration was exchanged between memberships to enact this amalgamation. Membership shares of HCCU were converted to membership shares of Momentum at a 1:1 ratio. Membership shares of TOCU were converted to membership shares of Momentum at a 20:1 ratio. Excess membership shares held by former TOCU members were converted to Participation shares of equal value.

The fair value of assets and liabilities of TOCU acquired include:

Assets	**Fair Value**
Cash	10,092,451
Member loans receivable	59,244,095
Investments	12,162,638
Derivative financial instruments	426,798
Property, plant and equipment	1,285,144
Other assets	295,535
Future tax asset	216,077
Deferred pension costs	394,767
Goodwill	1,015,324
	85,132,829
Liabilities	
Accounts payable	251,601
Obligations for post-retirement benefits	1,205,300
Member deposits	78,679,997
Member share capital	1,947,718
Contributed Surplus	3,048,213
	85,132,829

Fair values are significantly different from contractual values for the following assets and liabilities acquired:

	Fair Value	**Contractual Value**
Member loans receivable	59,244,095	59,176,909
Member deposits	78,679,997	77,379,125

Included in the statements of income and comprehensive income are the following amounts attributable to the TOCU operations for the period December 1, 2010 through December 31, 2010:

Interest Revenue	496,751
Net income	(101,723)
Other comprehensive income	(46,306)

Disclosure of the revenue and net income of the amalgamated entity under the assumption that this acquisition had occurred January 1, 2010 has not been provided as it is impractical to compile this information.

Notes to the Financial Statements

For the year ended December 31, 2010

4. DERIVATIVES

From time to time, in the ordinary course of business, the credit union enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations. At December 31, 2010, the credit union was party to three such agreements with Central 1 Credit Union. The agreements, in aggregate, represent a notional principal amount of $15,000,000, maturing between June 2011 and August 2014.

Under the terms of these agreements, the credit union has contracted with the counter party to pay interest at a variable rate equivalent to the one month CDOR rate to be repriced monthly, while receiving interest at a fixed rate on the notional principal amount. The credit union is currently receiving or will receive fixed rates on these swaps ranging from 2.57% to 5.02% and is paying variable rates as at December 31, 2010 of 1.2%.

	Derivative Maturities (Notional Amounts) Within 1 year	1 to 5 years	Fair Value 2010	Fair Value 2009
Interest rate swaps	5,000,000	10,000,000	380,942	-

These derivatives have a fair value that varies based on the particular contract and changes in interest rates. The purpose of these derivatives is to provide a hedge against interest rate fluctuations by improving the credit union's matching of its asset and liability positions.

5. LOANS RECEIVABLE

	2010	2009
Personal loans	14,975,634	7,765,615
Mortgage loans	103,194,200	52,226,263
Commercial loans	758,219	-
Syndicated loans	2,970,784	-
Accrued interest	122,126	88,837
	122,020,963	60,080,715
Allowance for Doubtful Loans (Note 6)	(273,143)	(166,470)
	121,747,820	59,914,245

6. CONTINUITY OF ALLOWANCE FOR DOUBTFUL LOANS

	2010	2009
Balance - Beginning of Year	166,470	130,332
Allowance against Twin Oak Credit Union loans acquired on amalgamation	80,204	-
Loans written off against the allowance	(95,127)	(88,345)
Increase in allowance charged to income	95,239	121,671
Recovery of previously written off loans	26,357	2,812
Balance - End of Year	273,143	166,470

The allowance for doubtful loans as at December 31, 2010 is broken down as follows:

	Allowance for doubtful loans 2010	2009	Aggregate impaired loans 2010	2009
Personal loans	168,721	126,607	168,721	126,607
Non-specified loans	104,422	39,863	-	-
Mortgages	-	-	224,624	73,912
	273,143	166,470	393,345	200,519

Notes to the Financial Statements

For the year ended December 31, 2010

7. INVESTMENTS		2010	2009
Concentra Financial Services term deposits	i	2,000,000	4,821,239
Central 1 Credit Union			
Shares	iii	1,112,284	507,561
Liquidity reserve	i	11,513,127	5,729,890
Term deposits	i	2,175,000	1,170,400
Credit Union Central of Ontario shares	iii	4,454	109,500
Other investments			
Co-operative shares	iii	29,270	2,466
Term deposits	iii	1,300,000	-
Term deposits	iv	-	2,100,000
ABCP 2008 Limited Partnership units	ii	790,831	382,736
Marketable securities	iii	513,280	-
Accrued investment income		165,489	88,396
		19,603,735	14,912,188

Financial Instrument classifications in accordance with Note 1(d):

i Loans and receivables, recorded at amortized cost
ii Held for trading, recorded at fair value
iii Available for sale, recorded at fair value
iv Held to maturity, recorded at amortized cost

On July 1, 2008, assets of Credit Union Central of Ontario (CUCO) were sold to Credit Union Central of British Columbia (CUCBC) to form Central 1 Credit Union (Central 1).

Prior Prior to the sale to Central 1, members of CUCO were required to hold an investment equal to 0.8% of its total assets in CUCO shares to remain a member in good standing. On the date of acquisition, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. Through the course of this transaction the credit union received $212,317 in Central 1 Class A shares and $306,100 in Central 1 Class E shares. In 2010 an additional $107,000 in CUCO shares were converted to Central 1 Class E shares. The credit union retains $70,092 in CUCO shares which have been written down by $65,638 to represent their estimated value.

No market exists for the shares of CUCO or Central 1 Credit Union except that they may be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the credit union's own shares and deposits decline. Accordingly, these investments are carried at cost less the provision for impairment that is considered other than temporary.

As a condition of membership in Central 1, the credit union is required to maintain an interest bearing "liquidity reserve deposit" equal to 7% of its total assets at the end of each calendar quarter. Except for possible refunds occasioned by future reductions in total assets, this deposit is refundable to the credit union only in the event of the credit union's dissolution or withdrawal from membership in Central 1.

ABCP 2008 Limited Partnership

As a pre-condition of the sale of assets of CUCO to CUCBC, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership (ABCP LP) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of $186,916,000 was acquired by the ABCP LP at its estimated fair value of $133,564,000, including accrued interest, net of expenses, and other assets.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions. The credit union records its investment in the partnership using the equity method of accounting. For the period ended December 31, 2010 the unaudited financial statements of the partnership recorded a net gain of $17,319,604. The credit union's proportionate share of that gain was $107,890, which has been recorded as investment income. During the year the credit union received distributions from the LP in the amount of $20,543 which are recorded as a return of the initial capital invested.

Notes to the Financial Statements

For the year ended December 31, 2010

8. PROPERTY, PLANT AND EQUIPMENT	Cost	Accumulated Amortization	2010	2009
Land	44,882	-	44,882	19,557
Building	1,632,717	409,091	1,223,626	80,767
Paved parking lots	73,135	53,417	19,718	-
Leasehold improvements	109,138	84,249	24,889	-
Furniture and fixtures	801,239	668,597	132,642	44,216
Computer equipment	1,414,029	1,313,906	100,123	25,371
ATM Machine	100,535	14,930	85,605	95,658
	4,175,675	2,544,190	1,631,485	265,569

9. EMPLOYEE PENSION PAYABLE

On amalgamation, the credit union acquired the pension plan obligations of the former Twin Oak Credit Union Limited. As a result, the credit union sponsors a registered pension plan that has a defined benefit component and a defined contribution component. The defined benefit component is non-contributory and was closed to new participants on January 1, 2009.

Assets of the defined benefit pension plan are held by CUMIS and invested in a Deposit Administration Fund, operated by CUMIS, and in a balanced fund operated by McLean Budden.

The credit union makes contributions to the fund, based on periodic valuation reports prepared by an independent actuary, in accordance with regulatory requirements.

An actuarial valuation was performed as at January 1, 2008. The changes in the defined benefit plan during the year are as follows:

Elements of the defined benefit pension expense recognized in the year	2010	2009
Current service cost	6,892	-
Expected return on assets	(9,458)	-
Interest cost on accrued pension obligations	7,475	-
Amortization of net actuarial losses	333	-
Amortization of transitional obligation	75	-
	5,317	-

Plan Assets	2010	2009
Fair value, on acquisition December 1, 2010	1,846,550	-
Benefits paid	(4,833)	-
Expected return on assets	9,458	-
Fair value, end of year	1,851,175	-

Actuarial pension obligations	2010	2009
Obligation on acquisition, December 1, 2010	1,673,667	-
Current service cost	6,892	-
Interest cost on plan obligation	7,475	-
Benefits paid	(4,834)	-
Obligation, end of year	1,683,200	-

Notes to the Financial Statements

For the year ended December 31, 2010

9. EMPLOYEE PENSION PAYABLE cont'd

Reconciliation of funded status to amount recorded in the balance sheet	2010	2009
Fair value of plan assets	1,851,175	-
accrued pension obligation	(1,683,200)	-
Plan surplus (deficit)	167,975	-
Unamortized net actuarial losses	216,600	-
Unamortized transitional obligation	4,875	-
	389,450	-

Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the credit union's accrued benefit obligation are as follows:

Discount rate	5.25%
Expected return on plan assets	6.50%
Expected rate of compensation increases	3.00%

10. POST-RETIREMENT BENEFITS - NON-PENSION

On amalgamation, the credit union acquired the non-pension benefit obligations of the former Twin Oak Credit Union Limited. The credit union pays certain medical and dental benefits on behalf of its eligible retired employees. Active employees prior to 2009 who retire from full-time employment after the attainment of age 55 years and completion of ten years of continuous service, will qualify for post-retirement medical and dental benefits under current provisions. Employees after 2008 who retire from full-time employment after the attainment of age 55 years and completion of 20 years of continuous service, will qualify for reimbursement of approved expenses to a maximum of $1,000 per year. The credit union recognizes these post-employment costs in the period in which employees' service was rendered.

There are no assets in the plan and therefore this plan is unfunded. The accrued benefit obligation as at December 31, 2010 of $1,205,550 and the expense for the year ended December 31, 2010 was determined by actuarial valuation using a discount rate of 5.25%.

The changes in the plan during the year are as follows:

Elements of the net benefit plan expense recognized in the year	2010	2009
Current service cost	1,333	-
Interest cost on plan obligation	4,025	-
Amortization of net actuarial losses	(1,617)	-
	3,741	-

Plan obligation	2010	2009
Obligation on acquisition, December 1, 2010	928,334	-
Current service cost	1,333	-
Interest cost on plan obligation	4,025	-
Benefits paid	(3,492)	-
Obligation, end of year	930,200	-

Reconciliation of funded status to the amount recorded in the balance sheet	2010	2009
Obligation, end of year	930,200	-
Unamortized net actuarial gains (losses)	275,350	-
	1,205,550	-

Actuarial assumptions:

Significant actuarial adjustments adopted in measuring the credit union's accrued benefit obligations are as follows:

Discount rate	5.25%
Expected rate of medical cost escalation	9.00%
Expected rate of dental cost escalation	3.00%
Expected rate of compensation increases	3.00%

Medical costs were assumed to increase at 9% per annum at October 1, 2010 grading down 1% per annum to a rate of 5% thereafter.

Notes to the Financial Statements

For the year ended December 31, 2010

11. MEMBERS' DEPOSITS

	2010	2009
Chequing accounts	17,919,989	10,175,932
Savings accounts	20,887,739	9,906,347
Term deposits	41,576,244	13,819,774
Tax free savings accounts	1,945,355	480,147
Registered Retirement Savings Plans	39,716,011	16,498,740
Registered Retirement Income Funds	14,572,111	8,099,304
Life insured savings	12,788,235	12,866,133
Accrued interest on member deposits	1,937,258	422,970
	151,342,942	72,269,347

12. MEMBERS' SHARES

	2010	2009
Class A shares	1,444,367	-
Class B shares	3,063,491	1,593,592
Membership shares, voting	48,621	32,849
	4,556,479	1,626,441

Class A shares are non-cumulative, non-voting and non-participating and rank in priority to Class B shares and membership shares. Class A shares are redeemable in any fiscal year after the first five years subsequent to issuance, to the extent of 10% of the total Class A shares outstanding at the end of the previous fiscal year, or at any time after the death of the shareholder.

Class B shares are non-cumulative, non-voting shares ranking in priority to membership shares. Class B shares are redeemable at the issue price upon termination of membership or after the death of the shareholder. Redemption in any fiscal year may not exceed 10% of the Class B shares outstanding at the end of the previous fiscal year.

Members are required to own one membership share with a par value of $5 per share. Amounts paid for shares may be withdrawn upon termination of membership or after the death of the shareholder.

13. CAPITAL MANAGEMENT

The credit union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover the risks inherent in the business. The credit union considers its capital to comprise cash resources, membership shares, undivided earnings, and reserves.

The Credit Unions and Caisses Populaires Act, 1994 requires the credit union to maintain regulatory capital of 4% of total assets and 8% of a risk weighted equivalent value. The risk weighted equivalent value is calculated by applying risk weight percentages as prescribed by the Act to various assets, operational and interest rate risk criteria.

Regulatory capital	2010	2009
Tier 1 Capital		
Membership shares	4,556,479	1,626,441
Contributed surplus	3,048,214	-
Reserves	5,957,523	5,752,987
Undivided earnings	(587,762)	204,536
Tier 2 Capital		
General allowance for doubtful loans	104,422	39,863
	13,078,876	7,623,827
Percentage of total assets	7.89 %	9.50 %
Risk weighted equivalent value	51,554,744	28,657,870
Percentage of risk weighted equivalent value	25.37 %	26.60 %

The Act also requires that the credit union maintain prudent levels of liquidity sufficient to meet its cash flow needs. Assets held for liquidity purposes include:

	2010	2009
Cash	19,598,803	4,967,767
Liquidity reserve with Central 1	11,513,127	5,729,890
	31,111,930	10,697,657
% of member deposits	20.82 %	14.89 %

Notes to the Financial Statements

For the year ended December 31, 2010

14. INTEREST REVENUE	2010	2009
Personal loans	734,533	695,577
Mortgages	2,424,927	2,248,646
Investments	319,027	416,861
	3,478,487	3,361,084

15. INTEREST EXPENSE	2010	2009
Savings accounts	75,450	74,027
Term deposits	266,526	285,947
Registered retirement savings plans	399,470	409,928
Registered retirement income funds	165,630	208,611
	907,076	978,513

16. DIVIDENDS AND REBATES

To facilitate the amalgamation described in Note 3, and to equalize the capital of the two credit unions, prior to amalgamation Hamilton Community Credit Union Limited issued a $1,099,963 dividend to its members. This dividend was paid by issuance of additional Class B shares.

17. INCOME TAX - CURRENT	2010	2009
The income tax provision was calculated as follows:		
Income per statement before income taxes	(688,407)	244,654
Adjust for amortization allowed for accounting purposes and that allowed for tax purposes	(5,156)	(15,053)
Transition adjustment to fair value measurement of investments for tax purposes	-	17,813
Adjust allowance for doubtful loans to allowance for tax purposes	9,073	3,614
Other adjustments	(24,121)	3,138
Taxable income	(708,611)	254,166
Tax at prescribed rate of 31.00% (2009 - 33.00%)	(219,669)	83,875
Credit union rate reduction	95,967	(41,937)
	(123,702)	41,938

18. RESTRICTED PARTY TRANSACTIONS

The loans to directors, officers and employees amounted to $2,870,113 as at December 31, 2010 ($1,026,000 as at December 31, 2009). No allowance was required on these loans as at December 31, 2010.

Honorariums paid to directors and committee members was $20,390 (2009 - $21,992)

19. FINANCIAL INSTRUMENTS

The estimated fair market value of the accounts receivable and accounts payable is equal to the book value given the short-term nature of the items.

The amounts set out below represent the fair values of the credit union's financial instruments where fair value differs from carrying cost. Financial instruments valued at fair value as per Note 1(d) and Note 7 are excluded as these instruments are carried at fair value. Assets that are not considered financial instruments, such as capital assets, prepaid expenses and future income taxes, are also excluded.

2010	Fair value	Book value	Fair value over (under) book value
Assets			
Concentra Financial Services term deposits	2,013,058	2,000,000	13,058
Central 1 liquidity reserve	11,578,341	11,513,127	65,214
Central 1 term deposits	2,216,063	2,175,000	41,063
Loans receivable	121,958,791	122,020,963	(62,172)
Liabilities			
Member deposits	151,726,724	151,342,942	383,782

Notes to the Financial Statements

For the year ended December 31, 2010

19. FINANCIAL INSTRUMENTS cont'd

2009	Fair value	Book value	Fair value over (under) book value
Assets			
Concentra Financial Services term deposits	4,851,890	4,821,239	30,651
Central 1 liquidity reserve	5,732,037	5,729,890	2,147
Central 1 term deposits	1,180,311	1,170,400	9,911
Other term deposits	2,114,608	2,100,000	14,608
Loans receivable	60,670,431	60,080,715	589,716
Liabilities			
Member deposits	72,879,633	72,269,347	610,286

Fair value of variable rate loans and member deposits are assumed to equal the book value as the interest rates on these loans and deposits reprice to market on a periodic basis.

Fair value of fixed rate investments, fixed rate loans, and fixed rate member deposits is determined by discounting the expected future cash flows of these investments, loans, and deposits at current market rates for products with similar terms and credit risks. Contractual cash flows are assumed to represent expected cash flows.

Fair Value Hierarchy

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of the measurement date.

Level 1

Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2

Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3

Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Financial instruments classified within Level 3 of the hierarchy are initially valued at their transaction price, which is considered to be the best estimate of fair value. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	2010 Total
Cash and bank	19,598,803	-	-	19,598,803
Term Deposits	-	1,300,000	-	1,300,000
Derivatives	-	-	380,942	380,942
ABCP 2008 LP units	-	-	790,831	790,831
Marketable securities	-	513,280	-	513,280
Total fair value investments	19,598,803	1,813,280	1,171,773	22,583,856

Financial Instruments Measured at Fair Value	Level 1	Level 2	Level 3	2009 Total
Cash and bank	4,967,768	-	-	4,967,768
ABCP 2008 LP units	-	-	382,736	382,736
Total fair value investments	4,967,768	-	382,736	5,350,504

Notes to the Financial Statements

For the year ended December 31, 2010

19. FINANCIAL INSTRUMENTS cont'd

The reconciliation of Level 3 financial instruments is as follows:	Derivatives	ABCP 2008 LP
Balance January 1, 2010	-	382,736
Acquired on amalgamation with Twin Oak Credit Union	426,798	320,748
Total gains included in the statement of income as investment income	-	107,890
Gains included in Other Comprehensive Income	(45,856)	-
Distributions received	-	(20,543)
Balance December 31, 2010	380,942	790,831

The fair value of the ABCP 2008 LP units is calculated and provided by the partnership. Due to the nature of the partnership and its taxable distribution of income to the partners annually, the credit union's cost base of the units is equal to the fair value as calculated by the partnership.

The fair value of the interest rate swaps is calculated and provided by Central 1 Credit Union.

20. RISK MANAGEMENT

The credit union is exposed to a variety of financial risks inherent in its operations. The credit union has established prudent risk management policies in accordance with DICO By-law #5. The credit union's objective is to manage these risks to ensure that an appropriate balance of return for the risk assumed is maintained.

Currency Risk

The credit union is exposed to fluctuations in the value of financial instruments denominated in foreign currencies. The credit union limits its exposure to currency risk by maintaining investments in foreign currencies in proportion to foreign denominated member deposits.

Credit Risk

The credit union is exposed to the risk of loss related to loans and mortgages receivable as described in Note 5. The credit union invests in loans as its primary source of revenue. Credit is granted through consideration of credit history, character, collateral, and capacity for debt. The risk of credit loss is mitigated by requiring collateral security on loans in excess of $5,000. Mortgages are secured by real property. Term loans and lines of credit may be secured by other assets equivalent to the approved balance of the loan.

Liquidity Risk

Liquidity risk consists of the risk that the credit union is unable to generate sufficient cash to meet commitments as they come due. The credit union maintains a liquidity reserve with Central 1 as described in Note 7. The credit union is also required by statute to maintain a prescribed amount of liquid assets to mitigate liquidity risk. Liquidity requirements based on expected maturity of member deposits, and the corresponding maturity of investments and loans, is included in the table below, under Interest Rate Risk. The credit union's liquidity at December 31, 2010 is 20.82%.

Interest Rate Risk

The credit union is required to establish policies and procedures to limit its exposure to interest rate risk. These policies must ensure that the credit union's net earnings before income taxes are not impacted by an amount greater than 0.15% of the credit union's total assets based on interest rate fluctuations that may reasonably be expected to occur. Measurement and management of exposure of interest rate sensitivity is done through a combination of income simulation and maturity gap analysis. The credit union's interest rate risk results from the fact that the maturity or repricing dates for interest rate sensitive assets differs from that for interest rate sensitive liabilities.

The credit union is exposed to interest rate price risk as a result of fixed rate financial instruments. The credit union is exposed to interest rate cash flow risk as a result of its variable rate financial instruments.

Fixed rate financial instruments maturity dates substantially coincide with interest adjustment dates.

The tables followinging identify the maturity dates of interest rate sensitive financial instruments.

Notes to the Financial Statements

For the year ended December 31, 2010

20. RISK MANAGEMENT cont'd

2010	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Non-rate sensitive	Total
Assets						
Cash and bank	18,972,364	-	-	-	626,439	19,598,803
effective rate %	1.34	-	-	-	-	
Loans and mortgages	50,872,882	1,768,942	13,557,476	55,821,663	-	122,020,963
effective rate %	5.08	3.90	4.20	4.59	-	
Investments	-	1,468,028	4,192,975	11,192,613	2,750,119	19,603,735
effective rate %	-	1.02	1.42	2.57	-	
Liabilities						
Member deposits	55,597,647	19,144,739	27,809,318	45,076,377	3,714,861	151,342,942
effective rate %	0.18	1.60	1.93	2.98	-	

2009	Variable	Within 3 months	4 to 12 months	Greater than 1 year	Non-rate sensitive	Total
Assets						
Cash and bank	4,412,506	-	-	-	555,261	4,967,767
effective rate %	0.39	-	-	-	-	
Loans and mortgages	23,486,724	1,048,835	6,147,568	29,397,588	-	60,080,715
effective rate %	4.74	5.41	4.84	4.80	-	
Investments	-	3,432,046	7,705,632	2,772,247	1,002,263	14,912,188
effective rate %	-	0.60	1.81	1.61	-	
Liabilities						
Member deposits	34,486,683	10,068,849	14,554,888	13,032,409	126,518	72,269,347
effective rate %	0.25	1.56	1.55	2.88	-	

A 0.25 percentage point increase or decrease in market rates will cause the credit union's net interest income to increase or decrease by $139,000 or 0.0838% of total assets. This result is in compliance with the credit union's risk management policy.

21. INTEREST AND INCOME TAXES PAID

During the year the credit union made the following payments:

	2010	2009
Interest paid on members' deposits and bank accounts	496,974	1,292,011
Income taxes paid	100,347	90,924

22. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for purposes of comparison, have been reclassified to conform with the current year's presentation.

23. COMMITMENTS

i) The credit union has entered into a lease for its Mohawk Road branch office. The lease term expires June 30, 2014 with an annual lease commitment of $39,872.

ii) The credit union has contractually committed to upgrade its computer systems in 2011. Total cost of the contract is $316,115, of which $63,446 has been paid and is included in prepaid expenses. The balance of $252,669 will be paid during 2011.

iii) Outstanding commitments for unused lines of credit are $11,883,136 (2009 - $7,199,187)

iv) Outstanding commitments for future advances on mortgages are $1,165,253 (2009 - $924,050)

v) The credit union has issued letters of credit in the amount of $30,000 that are outstanding at year end. These letters of credit are issued to various third parties on behalf of members of the credit union. These letters are converted to loans to the members when drawn by the third party.

24. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically included in the definition of publicly accountable enterprises. Consequently, the credit union will be required to prepare the December 31, 2011 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant difference recognition, measurement and disclosures. The credit union has prepared a reconciliation of equity from Canadian GAAP to IFRS on the date of transition (January 1, 2010) and does not expect any material adjustments on transition.

momentum™
CREDIT UNION
now you're getting somewhere

Hamilton
King Street Branch
698 King Street East
Hamilton, ON L8M 1A3
T: 905.529.9445
F: 905.529.9016

Mohawk Road Branch
499 Mohawk Road
Hamilton, ON L8V 4L7
T: 905.383.3395
F: 905.383.5580

Oakville
1045 Industry Street
Oakville, ON L6J 2X3
T: 905.845.3441
F: 905.845.2155

Brampton
37-480 Chrysler Dr.
Brampton, ON L6S 0C1
T: 905.790.0344
F: 905.790.0366

All Branches
Toll Free: **1.888.956.6636** Website: **www.MomentumCU.ca** Email: **info@MomentumCU.ca**