



2011 Annual Report



**CREDIT
UNION**

CONSOLIDATED
Getting You There™



Largest network of financial institutions in Canada

Consolidated Credit Union is part of a larger network of financial institutions that make up the Credit Union System. In Canada, the Credit Union System includes 419 Canadian Credit Unions, Concentra Financial Services Association, the Co-operators Group Limited, the CUMIS Group, Credit Union Insurance Services, Credential Financial, Credential Securities Inc., CUETS Financial, League Savings and Mortgage, and the Credit Union Deposit Insurance Corporation.

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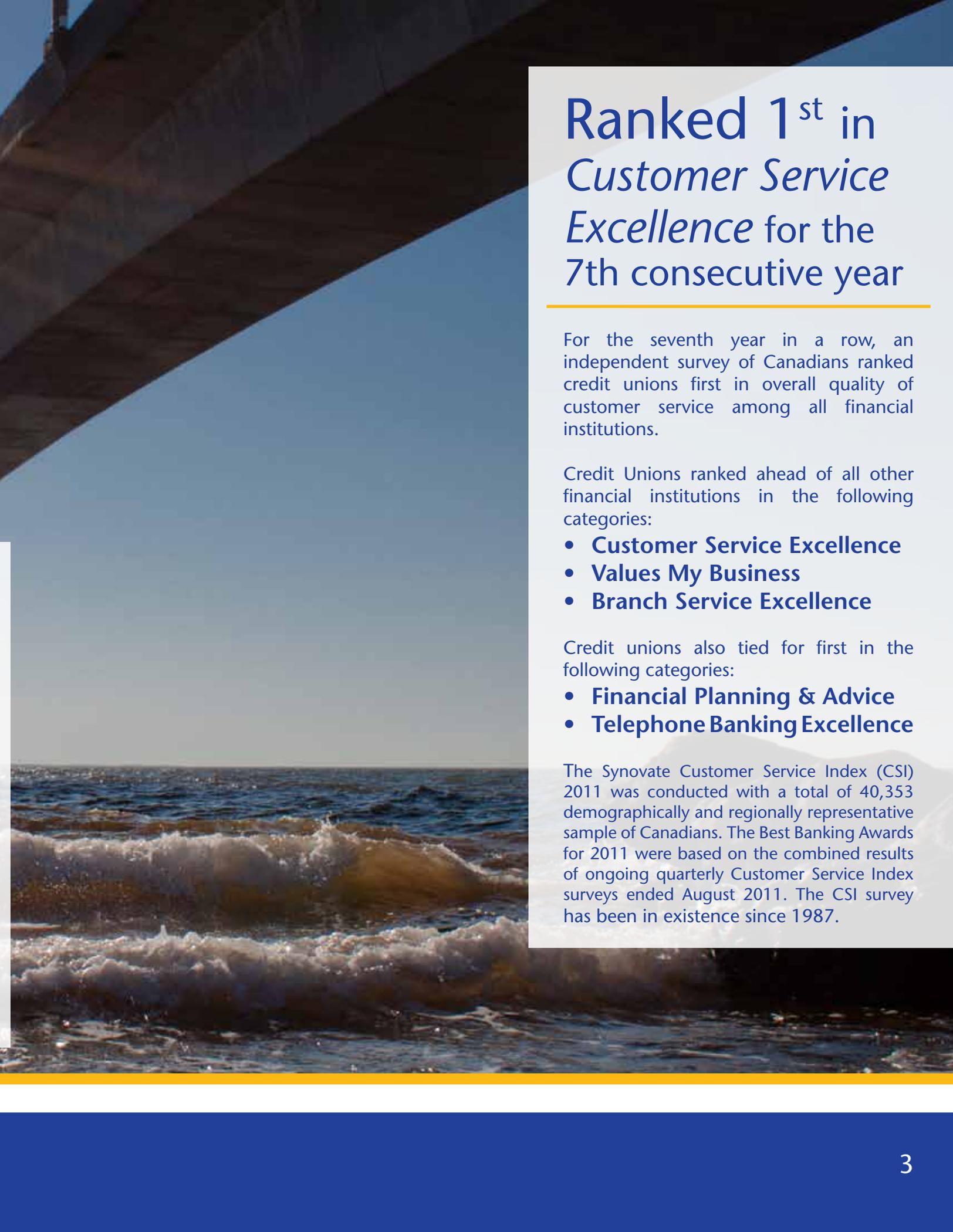


The Canadian Credit Union System

- Over **1,700** locations
- Over **five million** members
- **\$121.9 billion** in assets
- **\$109 billion** in deposits
- **\$99 billion** in loans
- **25,000** employees

Credit Unions in Atlantic Canada

- Total amount of system assets:
\$3.9 Billion
- Total number of credit unions:
60
- Total points of service:
170
- Total number of members:
335,398
- Total number of employees:
1,600



Ranked 1st in *Customer Service Excellence* for the 7th consecutive year

For the seventh year in a row, an independent survey of Canadians ranked credit unions first in overall quality of customer service among all financial institutions.

Credit Unions ranked ahead of all other financial institutions in the following categories:

- **Customer Service Excellence**
- **Values My Business**
- **Branch Service Excellence**

Credit unions also tied for first in the following categories:

- **Financial Planning & Advice**
- **Telephone Banking Excellence**

The Synovate Customer Service Index (CSI) 2011 was conducted with a total of 40,353 demographically and regionally representative sample of Canadians. The Best Banking Awards for 2011 were based on the combined results of ongoing quarterly Customer Service Index surveys ended August 2011. The CSI survey has been in existence since 1987.



Consolidated Credit Union

Consolidated, as its name denotes, came about through the amalgamation of a number of smaller credit unions in East Prince. It was felt by the members and boards of each of the smaller offices that there would be greater strength in a larger credit union. On September 25, 1968 Consolidated Credit Union Ltd. was officially incorporated.

In 1984, Consolidated Credit Union purchased the Strong building at the corner of Water and Central Streets in Summerside and is now a familiar landmark encompassing the entire corner.

Borden Credit Union joined the growing Consolidated Credit Union on April 1, 1984 as a branch office in Borden Carleton, expanding the service area of Consolidated Credit Union and creating a multi-branch operation for the first time. In 1992, continued growth lead to an innovative service facilities expansion, this time, taking form as a full service drive through.

Today, Consolidated Credit Union is the second largest Credit Union by asset size on Prince Edward Island, providing dedicated service to Islanders with the most effective financial services and wise financial guidance to meet their financial objectives.

Board of Directors

From left to right:

Ron Silliker
Don Aubin
Lori Gandy

Joan Arnold
Bill Martin
Ivan Pineau

Scott Costain
John MacIsaac
Scott Dawson
(Not Pictured)



“ Your Credit Union is dedicated to provide you with the most effective financial services and wise financial guidance to empower you to make the best decisions for your financial well being.”

- Consolidated Credit Union Mission Statement



Consolidated Credit Union Staff

Summerside Office

Sarah Millar *General Manager*
Shane MacKinnon *Operations Manager*
Linda Hardy *Special Projects; Privacy Officer*
Steve Boyd *Commercial Accounts Manager*
Garnet Gibson *Commercial Accounts*
Amanda Murphy *Commercial Accounts*
Sandra Reeves *Consumer Loans*
Keith Johnston *Consumer Loans*
Pete Peters *Consumer Loans*
Judy Winchester *Loans Administration*
Kelly Culleton *Administrative Services*
Debi Gallant *Administrative Services*
Tanya Bernard *Administrative Services*
Barb Murphy *Financial Services & Student Loans*
Sandra Hickey *Financial Services*
Janet Grady *Investment Services*
Debbie MacLean *Office Supervisor*

Krista Woods *Assistant Supervisor*
Nancy Clark *Receptionist*
Nick Clow *Member Services*
Dawn Coughlin *Member Services*
Ann Ellis *Member Services*
Laurie Hickey *Member Services*
Vickie MacLellan *Member Services*
Mary Lou Profitt *Member Services*
John Smallwood *Member Services*
Deanna Walsh *Member Services*

Borden Office

Sandra Paynter *Financial Services*
Sally Paynter *Member Services*
Gloria Paynter *Member Services*
Margaret Ann Gallant *Member Services*

Awards and Recognition

Consolidated Credit Union received Business Excellence (20+Employees) Award

The Greater Summerville Chamber of Commerce Business Excellence (20+ Employees) award is presented to a company in the community with more than 20 employees who best exemplifies sound and innovative business practices in key business areas. These areas include providing a superior level of customer service, level of innovation and ingenuity, degree of community involvement and engagement, and fostering a strong employee/employer relationship.



Sandra Hickey named Chamber Volunteer of the Year

The Greater Summerville Chamber of Commerce Chamber Volunteer of the Year award is presented to an individual or company who demonstrates an outstanding level of commitment to the greater Summerville Chamber of Commerce through volunteer efforts within the Chamber and the community at large. This award recipient is selected by the Chamber staff and executive.



President's Report

As president of Consolidated Credit Union, it is my privilege to represent your Board of Directors and report to you on their behalf. It is my pleasure to report to you that once again, Consolidated Credit Union has had an excellent year through the combined efforts of our excellent staff and the support of you our members.

Each year at the Annual General Meeting, all directors participate in a formal procedure known as the installation of officers. By taking their oath, each board member publicly acknowledges the responsibility and trust that is placed in them by their fellow members. Throughout the year, your Board of Directors fulfills this responsibility through monthly meetings, committee meetings and various other gatherings. By working with and engaging relevant stakeholders, your board ensures that they stay educated and informed on matters of importance.

In my first year as Board President, we have navigated through some significant changes in the Credit Union landscape. The most significant change, which will have a long-term effect on our operations, was the dissolution of the ten member Credit Union Central of PEI and our merger as part of a new entity that includes member Credit Unions from all four Atlantic provinces. This new entity is called Atlantic Central.

Any change as far reaching as this always brings its share of challenges and we have certainly seen this materialize. With the guidance of our manager Sarah, our representative on the PEI Central board, Kelly Ellis and our involvement through board representation in the new entity, it appears as if the majority of the challenges are behind us and the benefits of being part of a much stronger Atlantic Canada presence in the financial sector will start to pay solid dividends.

I certainly anticipate that this will be the case and having recently attended the first ever regional conference I believe the benefits are already being realized.

This is my sixth year as a Consolidated Credit Union director and it is certainly rewarding to be involved with an organization that plays such a vital role in our community.

I would like to personally and publicly thank two members of our current board who, after many years of dedicated service are retiring. To Ivan Pineau and Don Aubin on behalf of all Consolidated Credit Union members and your fellow board, we can only say "Thank You." We will miss your knowledge, professionalism, experience and integrity.

This has been another successful year at Consolidated Credit Union. I would like to thank the staff of Arsenault, Best, Cameron and Ellis for their external audit and in particular Brian Cameron who not only provided us with timely guidance but also took a lead role in the wind up of the PEI central the Atlantic merger. Also, the staff of CUDIC for their ongoing support and guidance.





Credit Unions generally and certainly Consolidated Credit Union are well positioned to play a key role as important players in the financial services industry. What separates us from our major competitors has been and will continue to be our focus on Customer Service. This service is provided by a group of employees who have day in and day out exceeded expectations through their commitment to excellence. These efforts were publicly recognized very recently when the Consolidated Credit Union was awarded the Chamber of Commerce Business Excellence Award for businesses with over 20 employees against several significant other nominees.

In closing, I would like to thank the current board of directors for their dedication and commitment, welcome the new directors to the board, congratulate our "Member of the Year" and thank Sarah and her staff for another successful year. I would also like to thank you our members. Consolidated Credit Union is your organization and continues to prosper because of you.

Thank you,

Bill Martin
President

Manager's Report

Our AGM gives me the opportunity to share with you not only the financial results of the past year but also our vision for the future. While I am pleased to tell you that we had another strong financial year, I am just as proud to tell you that your credit union continues to do so without losing sight of the role we play in our communities.

As a financial institution, it is our intent to operate in a manner that conveys to you, our members, a sense of trust and security. Your involvement with your credit union serves as an indication of not only your co-operative spirit but also your desire to be involved with an organization that demonstrates your values. It is our responsibility to ensure that Consolidated Credit Union is a financial institution that you are proud to be a part of.

In the past I have spoken to you about the fact that the financial services industry is ever changing. New technology, evolving government regulations, increased competition, and an aging population are only a few items which fuel change. While we are firm believers that change is not something to be feared but rather something to be embraced, it is our responsibility to ensure that we are prepared to meet the challenges of the future. At the core of our future success is our financial stability. Our financial performance, which I will share with you later on, demonstrates our commitment to this as we continue to build our equity position.

In addition to being financially successful, we must be innovative. We must constantly look for new ways to conduct our business. A prime example of this is our transition to an Atlantic Central. Joining the Centrals from the maritime provinces was a prudent move. Having attended countless regional credit union meetings over the years I have always been amazed at the similarities between credit unions. Regardless of where you call home, credit unions share common issues. Joining forces with the Centrals of Nova Scotia and New Brunswick allows us to work together by sharing our talents to maximize our opportunities.

As your local credit union, we have not lost sight of the fact that we must take care of the communities we serve. We believe strongly in an educated workforce and work with both UPEI and Holland College to promote this. We also believe that we must lead by example and encourage others to get involved to make a difference. Our commitment to such things as Credit Union Place, Lights for Life, and Relay for Life are prime examples of this. Our diverse list of donations and sponsorships reflects our belief that the true worth of a cause can not simply be evaluated based on size or publicity but rather on how it positively impacts those around us.

In closing I would like to thank you for joining us this evening. Consolidated Credit Union is your financial institution and it is our hope that you are as proud of it as we are.

Thank You

Sarah Millar
General Manager



Investing In Our Community - Community Impact Report

Consolidated Credit Union prides itself on being actively involved in the communities we serve. During the past year we have had the privilege of being associated with the following worthwhile organizations:

- Holland College
- Summerside Minor Hockey
- ParaSport and Recreation PEI
- Summerside Chamber of Commerce
- Summerside Rotary
- Evangeline Rink Fundraising
- Prince Edward Island Co-operative Council
- Summerside Lions Club
- South Shore Chamber of Commerce
- Atlantic Co-operative Youth Leadership
- South Shore Actiplax
- Generation XX
- Credit Union Place
- College of Piping
- Relay for Life
- Prince County Hospital
- Y Kids
- Camp Abegweit
- Summerside Community Church
- PEI Lung Association
- Habitat for Humanity
- Kinkora Fire Department
- Special Olympics
- Muscular Dystrophy
- Boys and Girls Club
- Summerside Legion
- TOSH Safe Grad
- University of Prince Edward Island
- Crapaud Curling Club
- Borden Fire Department
- PEI Women's Institute
- PEI Sports Hall of Fame
- Crapaud Exhibition
- Le Club Richelieu Evangeline
- Hike for Hospice Palliative Care
- Crime Stoppers
- Junior Achievement
- Children's Wish Foundation
- PEI Lung Association
- Salvation Army
- Kinsmen



Investing in

Your Credit Union and Holland College share a strong passion for continued community development. Together, we are proud to feature the Credit Union Café, a central area in the Prince of Wales Campus for students to congregate, learn, socialize and, of course, eat.

“From our earliest beginnings, credit unions have been intrinsically tied to the idea of community education. In fact, many credit unions began as ‘study groups’, learning community economic concepts and cooperative principles, often over kitchen tables. Of course, the kitchen table image is particularly relevant in this case, and we hope as students gather over the tables in the Credit Union Café, the results of their conversations will be

as far-reaching and important as those of our forebearers. In fact, we have every confidence they will be.” - Sarah Millar, Credit Union Manager’s Association

Our commitment to our youth’s future extends beyond donations and includes scholarships, special rates, services, advice, and products.



the future of our youth

Education Report

The Education Committee is a selection committee as well as a policy review committee for the annual scholarships awarded by Consolidated Credit Union. This year there were seven scholarships awarded to graduating students from Kinkora Regional High School and Three Oaks Senior High School. The seven scholarships were valued at \$1,500 each.

This year's recipients received their scholarships at the graduation ceremonies at their respective high schools.

I would like to again, congratulate all the scholarship recipients and extend to them our sincere wishes for success. In closing, I wish to thank the committee members: Joan Arnold, Scott Dawson, Ron Silliker, Linda Hardy and Barb Murphy.

Respectfully submitted,

Lori Gandy
Chair

Consolidated Credit Union is pleased to announce our 2011 scholarship and bursary recipients:

Samantha Johnson
Acadia University

Jalesa Gallant
Memorial University

Rachel MacDonald
Saint Mary's University

Bernadette Lawless
Holland College

Maggie MacFarlane
University of New Brunswick

Janice Arsenault
University of New Brunswick

Megan Mollins
Acadia University

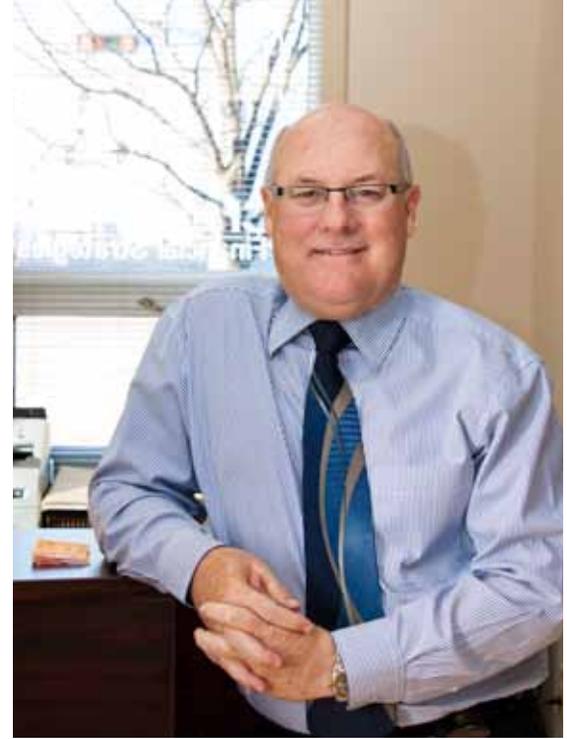
*All the best in your
future endeavors!*

Credential Financial Strategies Report

Following two years of steady growth, the economy of most countries around the world hit a speed bump in 2011 resulting in slower economic growth and volatile financial markets. The volatility is the result of growing concerns about the ability of the U.S. and several European countries to effectively deal with their government debt levels.

At this point, it is not clear whether current economic conditions will result in the beginning of a new recession or is simply a slowdown in a continuing recovery from the 2007/08 recession. Those that favor the latter, point out that many of the conditions that support strong business activity are in place. These include low interest rates, low inflation and access to credit. In general, publically traded companies in North America are in good financial condition with the vast majority reporting growing revenues and profits.

Unfortunately, these positive business conditions have largely been ignored in 2011 due to government debt concerns. In the short term, continued market volatility can be expected as countries deal with their debt challenges. In the long term, more robust economic growth and rising financial markets will only be achieved when people are confident that governments around the world have their financial house in order.



Rod MacInnis, CGA CFP

Certified Financial Planner

Credential Financial Strategies





ArsenaultBestCameronEllis
 CHARTERED ACCOUNTANTS

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November 8, 2011

Auditors' Report

To the Members of Consolidated Credit Union Ltd.

We have audited the accompanying financial statements of **Consolidated Credit Union Ltd.**, which comprise the balance sheet as at September 30, 2011 and the statements of earnings, undistributed 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.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained in our audit 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 **Consolidated Credit Union Ltd.** as at September 30, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

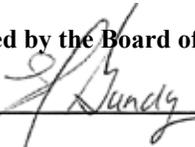
Consolidated Credit Union Ltd.

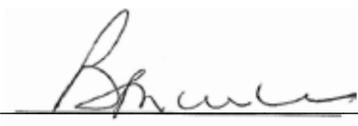
Balance Sheet

As at September 30, 2011

	2011	2010
	\$	\$
Assets		
Current assets		
Cash and equivalents	1,933,226	2,175,813
Current accounts	8,231,026	9,783,124
Loans and mortgages (notes 3 and 6)	102,350,094	97,716,001
Accrued loan interest receivable	171,227	202,774
Prepaid expenses and other	363,040	586,640
	<u>113,048,613</u>	<u>110,464,352</u>
Property and equipment (note 4)	2,094,195	2,145,899
Investments (note 5)	<u>20,200,121</u>	<u>18,485,238</u>
	<u>135,342,929</u>	<u>131,095,489</u>
Liabilities		
Current liabilities		
Member deposits (notes 3 and 6)	129,825,772	127,486,021
Accrued interest payable	1,039,921	1,055,419
Other liabilities	1,350,172	98,872
Income taxes payable	84,694	53,246
	<u>132,300,559</u>	<u>128,693,558</u>
Contingent liability (note 7)		
Members' Equity		
Undistributed income	<u>3,042,370</u>	<u>2,401,931</u>
	<u>135,342,929</u>	<u>131,095,489</u>

Approved by the Board of Directors


 Director
 Lori Gandy


 Director
 Bill Martin

Consolidated Credit Union Ltd.Statement of Undistributed Income
For the year ended September 30, 2011

	2011 \$	2010 \$
Undistributed income - Beginning of year	2,401,931	1,822,684
Net earnings for the year	640,439	579,247
Undistributed income - End of year	<u>3,042,370</u>	<u>2,401,931</u>

Consolidated Credit Union Ltd.

Statement of Earnings

For the year ended September 30, 2011

	2011	2010
	\$	\$
Revenue		
Loan interest	5,096,924	4,756,771
Investment	356,557	619,270
Service fees	779,477	776,584
Commissions	528,849	721,596
Property rentals	36,790	39,250
Other income	35,458	26,099
	<u>6,834,055</u>	<u>6,939,570</u>
Expenses		
Staff	1,846,697	1,815,061
Premises	290,396	284,567
Insurance	212,304	213,923
Office	262,294	245,767
Service fees	674,937	703,720
General	582,707	555,730
Cost of capital	2,199,066	2,348,170
	<u>6,068,401</u>	<u>6,166,938</u>
Operating earnings	<u>765,654</u>	<u>772,632</u>
Other expense		
Share dividends	40,521	40,383
Provision for loan losses	-	99,756
	<u>40,521</u>	<u>140,139</u>
	725,133	632,493
Provision for current income taxes	<u>84,694</u>	<u>53,246</u>
Net earnings for the year	<u>640,439</u>	<u>579,247</u>

Consolidated Credit Union Ltd.

Statement of Cash Flows

For the year ended September 30, 2011

	2011 \$	2010 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	640,439	579,247
Items not affecting cash		
Amortization	137,081	140,303
Provision for loan losses	-	99,756
	<u>777,520</u>	<u>819,306</u>
Net change in non-cash working capital items		
Decrease in accrued loan interest receivable	31,547	26,468
Decrease (increase) in prepaid expenses and other	223,600	(111,017)
Decrease in accrued interest payable	(15,498)	(381,557)
Increase in other liabilities	1,251,300	31,179
Increase in income taxes payable	31,448	53,246
	<u>2,299,917</u>	<u>437,625</u>
Financing activities		
Increase (decrease) in member deposits	2,339,751	(2,459,579)
Repayment of loan payable	-	(200,000)
	<u>2,339,751</u>	<u>(2,659,579)</u>
Investing activities		
Decrease (increase) in loans and mortgages	(4,634,093)	2,244,614
Purchase of property and equipment	(85,377)	(55,292)
Decrease (increase) in investments	(1,714,883)	941,083
	<u>(6,434,353)</u>	<u>3,130,405</u>
Increase (decrease) in net cash	(1,794,685)	908,451
Net cash - Beginning of year	<u>11,958,937</u>	<u>11,050,486</u>
Net cash - End of year	<u>10,164,252</u>	<u>11,958,937</u>
Net cash consists of		
Cash and equivalents	1,933,226	2,175,813
Current accounts	8,231,026	9,783,124
	<u>10,164,252</u>	<u>11,958,937</u>
Supplementary disclosure		
Interest received	5,485,028	5,402,509
Interest paid	2,214,564	2,729,727
Dividends received	-	582
Dividends paid	40,383	35,497
Income taxes paid	53,246	-

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

1 General

The Consolidated Credit Union Ltd. is incorporated under the Prince Edward Island Credit Unions Act. Its principal business activities include financial and banking services for credit union members.

2 Summary of significant accounting policies

Loans and mortgages

Loans and mortgages are stated at the principal amount less allowances established to recognize estimated credit exposure and impairment.

Provision for impaired loans

A loan is classified as impaired when, in management's opinion, it is prudent to establish a provision against certain loans for which the timely and full collection of the loan may be questionable. This provision is determined in two manners, specific provisions and general provisions.

Specific provision

Specific provisions are established on an individual facility basis to recognize expected credit losses. The specific provision is the amount that is allocated to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is either the fair value of any security underlying the loan, net of expected costs of realization and any amount legally required to be paid by the borrower.

General provision

A general provision is established to absorb credit losses attributable to the deterioration of credit quality within major portfolios for which specific provisions have not been established. The amount of the general provision is determined through analysis of individual accounts in regard to their potential collectibility. The determination of the amount of the general provision also considers the current state of the general economy and related industries. The general provision reflects management's estimate of potential exposure existing in the portfolio but such exposure is not specifically identifiable. The general provision does not necessarily represent future losses or serve as a substitute for specific provisions.

The provision for credit losses is maintained at an amount considered adequate to absorb estimated credit-related losses. The provision for credit losses reflects management's best estimate of the impairment existing in the portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the provision for credit losses currently recognized. The provision is increased by a charge to "provision for loan losses" which is a charge to income and reduced by write-offs net of recoveries.

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

Property and equipment

Land is carried at cost. All other property and equipment are carried at cost less accumulated amortization. Amortization is calculated using the declining balance method as follows:

Buildings	4%, 5%
Furniture, equipment and computers	20%, 30%, 45%, 55%
Pavement	8%

Investments

Investments in securities that are classified as held-to-maturity are valued at cost or amortized cost, adjusted to recognize impairment other than a temporary impairment in the underlying value.

Investments in securities that are classified as available for sale are initially recognized at acquisition cost and subsequently re-measured at fair value at each reporting date. The fair value of publicly traded securities is based on their quoted market prices. All other securities' fair value is determined by discounting the expected future cash flows at current market rates. When the fair value of the security cannot be reliably measured, it will be recorded at cost.

Revenue recognition

Loan interest

Interest accrued on loans is recognized in income except where a loan is classified as impaired. A loan is classified as impaired when a specific provision has been established, a write-off taken or when, in the opinion of management, there is a reasonable doubt as to the ultimate collectibility of principal or interest. Interest received on an impaired loan is recognized in income only if there is no longer doubt as to the collectibility of the carrying value of the loan, otherwise, the interest is credited to the principal. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

Investment and other income

Investment and other income is recognized as revenue on an accrual basis.

Service fees

Service fees income is recognized on an accrual basis in accordance with the service agreement.

Property rentals

Property rental income is recognized in the month the rent is earned.

Commissions

Commissions income is recognized when the event creating the commissions takes place.

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions mainly considering values that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. It is reasonably possible that changes in future conditions could require a material change in the recognized amounts.

Market value

Quoted market prices are not available for a portion of Consolidated Credit Union Ltd.'s financial instruments. Consequently, fair values presented are estimates derived using redemption values, present values or other valuation techniques which may not be indicative of the net realizable value.

Risk management policies

Management's risk management policies are informal and are typically performed as a part of the overall management of the entity's operations. Management's close involvement in operations identifies risks and variations from expectations leading to changes in risk management activities and requirements and actions. Management has not entered into hedging transactions to manage risk. As a part of the overall management of the entity's operations, management informally considers avoidance of undue concentrations of risk, and may require collateral to mitigate credit risk. These policies and procedures are unchanged from the prior year.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate.

Credit risk

Credit risk is the risk that a borrower will fail to meet principal and interest obligations. Consolidated Credit Union Ltd. is exposed to credit risk through its loans and mortgages, and mitigates its exposure to this risk through strict adherence to credit granting and monitoring policies and procedures. These policies include requiring collateral be pledged proportionate to the size and term of the loan and mortgage.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Consolidated Credit Union Ltd. is exposed to currency risk through its cash accounts and member deposits. Consolidated Credit Union Ltd. maintains deposits in foreign currencies to service its member accounts.

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

Financial instruments

Fair value of financial instruments

The fair value of Consolidated Credit Union Ltd.'s financial instruments are derived using the valuation methods and assumptions described below. The estimated fair values disclosed do not reflect the value of items that are not considered financial instruments, such as property and equipment. Since many of Consolidated Credit Union Ltd.'s financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (a) the fair values of cash and equivalents, current accounts, accrued loan interest receivable, accrued interest payable and other liabilities are assumed to approximate book values due to their short-term nature.
- (b) The amortized cost of floating rate loans and mortgages and members deposits are assumed to equal book value as the interest rates automatically reprice to market.
- (c) The amortized cost of fixed rate loans and mortgages and fixed rate deposits is determined by discounting the expected future cash flows of these loans and deposits at the current market rates for products with similar terms and credit risks.
- (d) The fair value of available for sale investments cannot be reliably measured, therefore, they will be recorded at cost.

The entity classifies financial instruments using the following criteria:

Loans, mortgages and receivables

Consolidated Credit Union Ltd. classifies non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand, usually with interest, as loans, mortgages and receivables.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the intention and ability to hold to maturity.

Consolidated Credit Union Ltd.

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September 30, 2011

Available for sale

Available for sale financial assets are those non-derivative financial assets that have been so designated or have not been classified as loans, mortgages, receivables or held to maturity investments.

Future accounting changes

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS), effective for Consolidated Credit Union Ltd.'s 2012 fiscal year.

Consolidated Credit Union Ltd. will present its IFRS opening balance sheet as at October 1, 2010 which represents the first day of the earliest comparative period to be included in its 2012 financial statements. As at that date, Consolidated Credit Union Ltd. will record adjustments to amounts reported on its Canadian GAAP balance sheet to reflect the balance which would have been presented had IFRS always been used. Differences between Canadian GAAP and IFRS will be debited or credited to retained earnings as appropriate. The 2011 comparatives will be presented under IFRS standards as well.

The impact of transitioning to IFRS is undetermined at this time but the areas expected to have the most significant impact are financial instruments and note disclosure to the financial statements.

3 Loans and mortgages

					2011	2010
	Total \$	Impaired Loans \$ (included in total)	General Provision \$	Specific Provision \$	Net \$	Net \$
Personal	15,746,652	188,119	6,643	183,660	15,556,349	15,051,593
Business	11,453,722	130,086	6,643	20,000	11,427,079	9,617,195
Mortgage - personal	38,335,600	-	-	-	38,335,600	36,321,657
Mortgage - business	21,417,152	169,723	6,643	50,000	21,360,509	18,191,757
Lines of credit and overdrafts	15,389,322	1,143,535	6,644	649,849	14,732,829	12,825,830
Student loans	937,728	-	-	-	937,728	5,707,969
	<u>103,280,176</u>	<u>1,631,463</u>	<u>26,573</u>	<u>903,509</u>	<u>102,350,094</u>	<u>97,716,001</u>

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

Continuity of provision for impaired loans

	2011	2010
	\$	\$
Provision for impaired loans - Beginning of year	1,339,624	1,806,659
Add: Recoveries during the year	9,750	29,758
Provision for loan losses	-	99,756
Less: Amounts written off during the year	(419,292)	(596,549)
Provision for impaired loans - End of year	<u>930,082</u>	<u>1,339,624</u>

Mortgages and other loans

In 2011, mortgages are secured by realty mortgages with interest rates of 2.5% - 7.4%.

Other loans are priced at market rates unless circumstances warrant special considerations. The interest rates range from 0.00% - 18% on personal and business loans, 0.00% - 24% on line of credits and overdrafts and 5.5% - 12% on student loans. The loans are secured by an assignment of specific call deposits and share capital of the borrower and other specific assigned securities.

Consolidated Credit Union Ltd.'s prime lending rate

Consolidated Credit Union Ltd.'s prime lending rate is set by the Board of Directors based on the prime interest rate of other chartered banks in Canada. The prime rate at September 30, 2011 was 3.00% (2010 - 3.00%).

4 Property and equipment

	<u>2011</u>		<u>2010</u>	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Land	682,622	-	682,622	682,622
Buildings	2,660,962	1,469,681	1,191,281	1,253,265
Furniture, equipment and computers	1,742,567	1,555,703	186,864	182,784
Pavement	97,680	64,252	33,428	27,228
	<u>5,183,831</u>	<u>3,089,636</u>	<u>2,094,195</u>	<u>2,145,899</u>

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

5 Investments

		2011		2010
		Amortized		Amortized
		Cost		Cost
		\$		\$
<i>Held to maturity:</i>				
Debentures		9,936,104		9,337,697
Liquidity reserve deposit		<u>7,926,660</u>		<u>8,009,000</u>
		<u>17,862,764</u>		<u>17,346,697</u>
	Fair	2011	Fair	2010
	Value	Cost	Value	Cost
	\$	\$	\$	\$
<i>Available for sale:</i>				
Credit Union Central shares	419,996	419,996	1,044,400	1,044,400
Atlantic Central shares	1,823,220	1,823,220	-	-
League Savings & Mortgage shares	19,411	19,411	19,411	19,411
League Data shares	71,730	71,730	71,730	71,730
Co-operative membership	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
	<u>2,337,357</u>	<u>2,337,357</u>	<u>1,138,541</u>	<u>1,138,541</u>
Total investments		<u>20,200,121</u>		<u>18,485,238</u>

In order to meet the Credit Union national standards, Consolidated Credit Union Ltd. is required to maintain on deposit in Atlantic Central an amount equal to 6% of the prior quarter's assets. The deposit bears interest at a variable rate.

Consolidated Credit Union Ltd.

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Debentures

Debentures are invested with the League Savings and Mortgage Company and Atlantic Central, and are carried at cost. These debentures have the following maturity dates and rates of return:

	Amount \$	Rate of Return	Maturity
	2,056,400	2.820%	May 21, 2012
	2,047,600	2.380%	August 13, 2012
	2,230,043	2.380%	August 8, 2012
	1,102,061	2.990%	July 16, 2014
	1,500,000	1.030%	November 8, 2011
	<u>1,000,000</u>	1.210%	November 7, 2011
Total	<u>9,936,104</u>		

No market exists for shares of Credit Union Central of Prince Edward Island and Atlantic Central except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be received in accordance with a Consolidated Credit Union Ltd. by-law providing for the redemption of its share capital.

All other equities with no specified maturity date are classified as available for sale. As there is no market value for the shares in Co-operatives, the fair value of the shares is estimated at amortized cost.

6 Member deposits

	2011 \$	2010 \$
Share accounts (note 8)	10,381,445	9,669,116
Savings and Plan 24	6,612,902	5,930,726
Chequing accounts	30,937,751	26,644,222
Term deposits	40,278,675	43,432,300
RRSP and RRIF	41,614,999	41,809,657
	<u>129,825,772</u>	<u>127,486,021</u>

Share accounts include the \$5 membership share plus individual member deposits.

Share accounts pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2011 was 0.5% (2010 - 0.5%) based on the minimum monthly share balance throughout the year.

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Savings and Plan 24 are on a call basis and earn a variable interest rate ranging from 0.00% - 4.10% and 0.00% - 0.25%, respectively.

Chequing accounts are on a call basis and pay interest at Consolidated Credit Union Ltd.'s stated rates.

Outstanding *term deposits* for periods of one to five years generally may not be withdrawn prior to maturity, without penalty. Term deposits for periods less than one year may be withdrawn after 30 days, subject to an interest reduction.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a waiting period.

Fixed *term deposits* bear interest at various rates ranging from 0.00% to 5.30% and extend for a term of up to five years.

RRSP and RRIF

Concentra Financial is the trustee for the registered savings plans offered to owners. Under an agreement with the trust company, owner's contributions to the plans, as well as income earned on them, are deposited in the credit union. On withdrawal, payment of the plan proceeds is made to owners, or the parties designed by them, by the credit union, on behalf of the trust company. RRSP and RRIF term deposits bear interest at various rates ranging from 0.00% to 5.60%.

7 Contingent liability

	2011	2010
	\$	\$
Outstanding guarantees on behalf of members	346,000	535,000

8 Share accounts

Unlimited membership shares, with a par value of \$5 each, non-transferable, redeemable by Consolidated Credit Union Ltd., retractable by shareholders subject to Consolidated Credit Union Ltd.'s right to suspend redemption, if the redemption would impair the financial stability of Consolidated Credit Union Ltd., for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Corporation. Dividends are payable at the discretion of the Board of Directors.

9 Income taxes

Consolidated Credit Union Ltd. has an unrecognized future income tax benefit of \$26,625 (2010 - \$30,189). The unrecognized future income tax benefit is as a result of \$221,875 (2010 - \$251,579) of temporary differences available to reduce taxable income in future years.

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

10 Related party transactions

Consolidated Credit Union Ltd. provides financial services to members. These members hold the loans and mortgages and member deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

11 Regulatory equity

Consolidated Credit Union Ltd. has agreed to maintain an equity level equal to 5% of the total assets.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants related to the financial statement presentation of financial instruments, the ownership shares are presented in the balance sheet as financial liabilities. At September 30, 2011, the equity level for regulatory purposes is as follows:

	2011 \$	2010 \$
Ownership shares	42,665	43,585
Members' equity	3,042,370	2,401,931
Total regulatory equity	<u>3,085,035</u>	<u>2,445,516</u>
Total assets	<u>135,342,929</u>	<u>131,095,489</u>
Equity level	<u>2.28%</u>	<u>1.88%</u>

Consolidated Credit Union Ltd.

Notes to Financial Statements

September 30, 2011

12 Interest rate sensitivity

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash	-	-	-	1,933,226	1,933,226
Short-term deposits	8,231,026	-	-	-	8,231,026
Effective interest rate	0.83%				
Investments	19,098,060	1,102,061	-	-	20,200,121
Effective interest rate	1.84%	2.99%			
Loans and mortgages	66,056,931	35,345,107	948,056	-	102,350,094
Effective interest rate	4.87%	4.91%	4.51%		
Accrued loan interest receivable	-	-	-	171,227	171,227
Prepaid expenses and other	-	-	-	363,040	363,040
Property and equipment	-	-	-	2,094,195	2,094,195
Total assets	93,386,017	36,447,168	948,056	4,561,688	135,342,929
Liabilities and surplus					
Member deposits	9,012,371	-	-	21,925,380	30,937,751
Effective interest rate	0.883%				
Call deposits	9,922,094	-	-	-	9,922,094
Effective interest rate	0.66%				
Share capital	10,381,445	-	-	-	10,381,445
Effective interest rate	0.50%				
Term deposits	37,696,627	40,887,855	-	-	78,584,482
Effective interest rate	1.784%	3.115%			
Accrued interest payable	-	-	-	1,039,921	1,039,921
Other liabilities	-	-	-	1,350,172	1,350,172
Income taxes payable	-	-	-	84,694	84,694
Effective interest r					
Undistributed earnings	-	-	-	3,042,370	3,042,370
Total liabilities and surplus	67,012,537	40,887,855	-	27,442,537	135,342,929
Interest rate sensitivity gap	26,373,480	(4,440,687)	948,056	(22,880,849)	-

As at September 30, 2011, Consolidated Credit Union Ltd.'s net interest spread was 2.47% (2010 - 2.33%). The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year-end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year-end interest bearing liabilities.



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