CREDIT UNION

ATLANTIC

2012 Annual Report

CREDIT UNION ATLANTIC

Annual Report 2012

Message from the Board Chair

On behalf of the Board of Directors, I am pleased to report that Credit Union Atlantic (CUA) had favourable results in 2012. With the recession in Europe and weak growth for other developed countries, our global and national economy continued to provide operating challenges for most credit unions across the country. Despite this environment, the Canadian credit union system remains in a healthy financial position, showing solid growth across the board in the areas of system assets, deposits and loan for 2012. Our credit union has a similar success story for this past year.

CUA continues to build dynamic relationships with various credit unions and committees supported by Atlantic Central. Our goal is to have greater collaboration across the credit union system and be a leader within our provincial and regional networks. This provides us with critical information updates and allows us to complement the advancements made by Atlantic Central and other credit unions in our service area.

I am pleased with the progress we have seen on each of the priorities laid out in our Strategic Plan and this has led to the development of a new Strategic Plan for 2013 to 2017. This progress and planning is in a focused effort to achieve the vision for CUA – to better our members and our community. To realize this vision, we are committed to our mission of doing everything we can to help each of our members achieve their financial goals and delivering on our brand promise of creating relationships members can bank on. Ultimately, our vision, mission and brand promise places our members as our first priority.

With our vision in mind, last year CUA implemented a Financial Literacy Plan to bring knowledge and understanding of finance to members of our community. This included making presentations in schools, offering an online interactive game for children, sharing tools and information via social media, and partnering with Junior Achievement to participate in its financial education programs. We also developed an Environmental Plan for 2013-2015. This plan will focus on feasible ways in which CUA can reduce its environmental footprint and abide by environmentally conscientious operations and business practices.

Our priorities for 2013 include delivering exceptional service to our members, diversifying our current membership base, developing existing system partnerships as well as fostering new ones, and continuing CUA's strong tradition of giving back to our community.

I would like to extend a warm thank you to each of my fellow Directors for their commitment and time this past year. I am proud to say that CUA's Board of Directors continually keeps our members top of

mind as they make decisions to better our organization. I would also like to thank our system partners for their sound service and support.

I send congratulations to the CUA team on another year of successes and thank them for their ongoing and unfaltering dedication. Most of all, I would like to thank you, our members, for your continued business. We look forward to helping you reach your future financial goals.

John Hawrylak
Board Chair

CREDIT UNION ATLANTIC

Annual Report 2012

Message from the President & CEO

This past year has had a number of achievements and I am proud to be a part of the CUA Team that turned 2012 into such a positive year. While there were many successes throughout the year, I'd like to share with you some of our key accomplishments in the priority areas of Growth, Service and Community.

In line with other Canadian credit unions, CUA saw financial growth in 2012. Personal loans increased by 5.4%, commercial loans increased by 5.0%, and deposits grew by 4.4%. Our comprehensive income was $1.2 million, showing an increase of $100,000 over the 2011 normalized comprehensive income.

In 2012, our focus was to implement innovative products and programs to uniquely serve our members. We introduced the Family Plan, a best-in-class program that allows each of your family members to enjoy personalized solutions for their financial needs. This customizable plan was created with feedback from our staff and our members, particularly the Family Advisory Council, and incorporates the best values from our portfolio of products, services and advice. Another wonderful offering is the Community Plan, a package designed to support non-profit groups that are making a difference in our community. Also with the success of local organizations in mind, we launched the Community Partners Program. Businesses participating in this program offer incentives to our members and their contact information is published in our Community Partners Directory. This not only helps our members find the best value when purchasing products and services, but supports local entrepreneurs and their businesses. Lastly, we wanted to recognize when our members share their CUA experience with family and friends. We developed the Member to Member Referral Program to reward these referrals and show our appreciation to these loyal members.

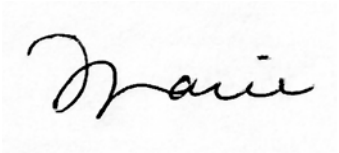
This past year we also made advancements in technology. We added digital cheque imaging to our portfolio of online banking services in spring 2012, providing members with quick and easy access to images of cheques written on their chequing account directly in online banking. We also introduced a mobile application for finding credit union branch locations and ATMs that members can use without being charged extra fees anywhere across the Country.

Training and development remains a priority at CUA as our employees are the cornerstone that allows us to provide unique financial solutions to our members. In 2012, we focused on creating training programs for specific roles, product and service training, and continued to foster a work environment that helps staff reach their full professional potential.

Last year, CUA remained a strong supporter of our community, giving of our time, resources and direct contributions to a multitude of organizations. Our partnership with Dalhousie University's Sustainability Department continued as we worked to compare our environmental assessment against the measurements, standards and programs of other credit unions. We also developed and implemented a Financial Literacy Plan to help strengthen the financial knowledge and skills of both our members and our community.

Looking ahead, 2013 promises to be a year with a strong focus on developing partnerships to improve our operational efficiency, while keeping the priority on exceptional service to our members.

I wish to sincerely thank our Board of Directors and each member of the CUA Team for their tremendous contributions to our organization in 2012. To our members, I would like to express my genuine gratitude for your valued business and loyalty. I anticipate another successful year ahead and look forward to providing you with the knowledgeable advice and personalized service you have come to expect from CUA.



Marie Mullally
President & CEO

CREDIT UNION ATLANTIC

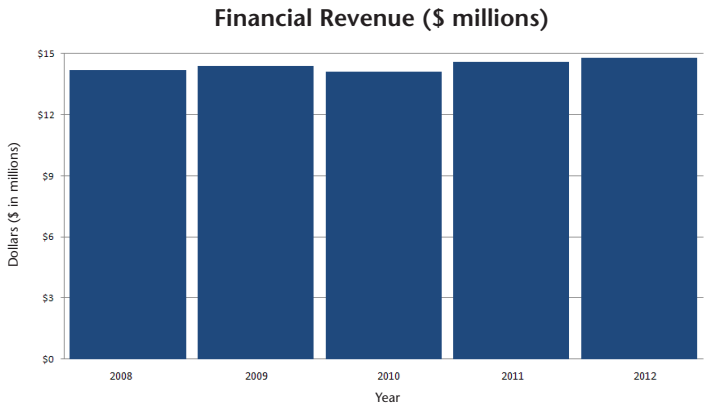
Annual Report 2012

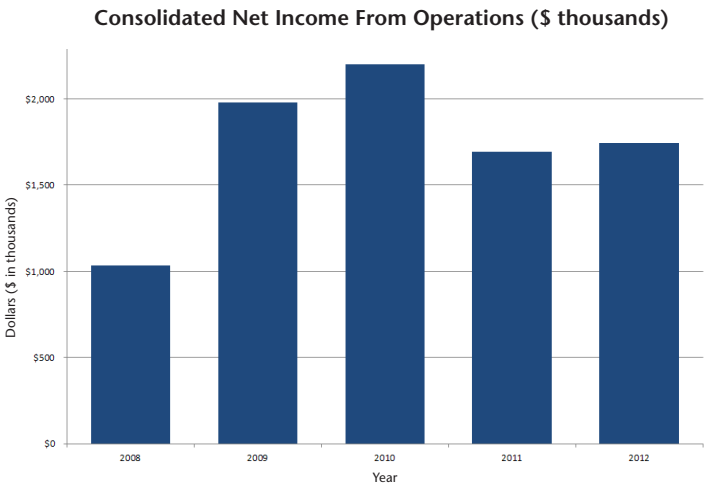
Review of Financial Operations

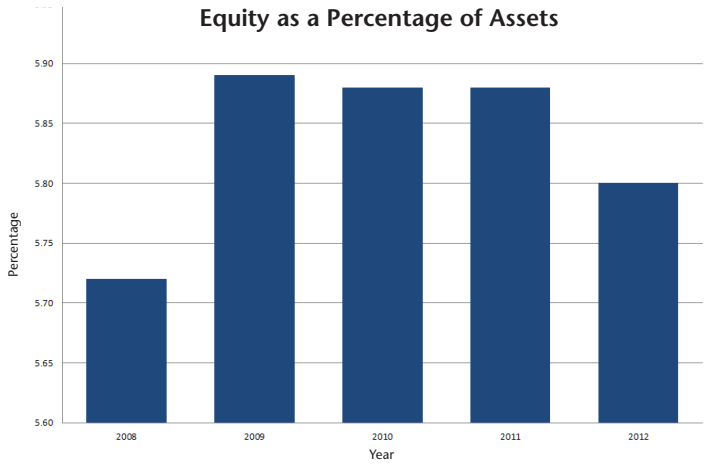
CUA finished the 2012 fiscal year with comprehensive income of $1.2 million, an increase of $0.1 million compared to the 2011 normalized comprehensive income. In 2011, CUA received a one-time Atlantic Central stock dividend of $1.2 million ($0.9 million, net of tax), arising from the amalgamation of New Brunswick, Nova Scotia and Prince Edward Island's provincial credit union centrals to a combined Atlantic Central. Removing this unusual item from the 2011 results reflect a normalized comprehensive income of $1.1 million in that year.

CUA continues to focus on strengthening its balance sheet and creating a strong, sustainable platform in which to serve its members. A key priority over the past two years has been on CUA's equity base. The provincial regulator has requested all credit unions in Nova Scotia to works towards achieving a total equity level of 8% of total assets. At year-end 2012, CUA had an equity ratio of 5.8% and has developed a long-term strategy to build this important ratio, which is intended to provide a buffer against current and future economic challenges as well as to ensure the sustainability of the organization. As part of this strategy, the Board of Directors has continued its prudent position to not distribute the member rebate for the 2012 year, consistent with the previous year, in order to improve CUA's equity position in keeping with the regulator's direction.

During the year, the loan portfolio increased by $14.6 million (5.3%) and the deposit portfolio increased by $12.9 million (4.4%). Total assets at December 31, 2012 were $328.5 million, an increase of $12.8 million (4.1%) over last year.





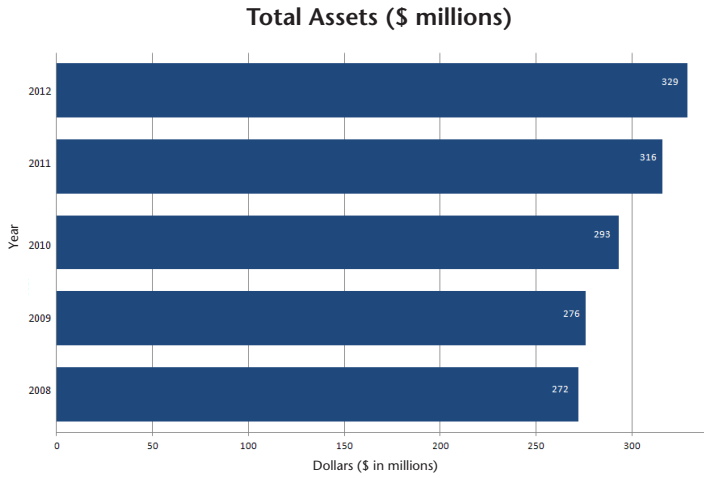


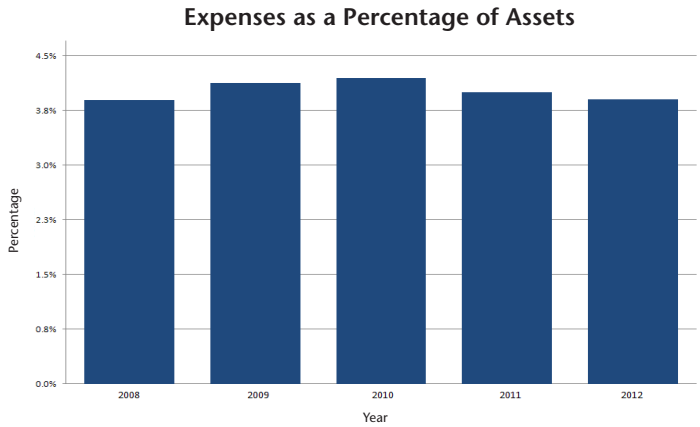
Interest earned on the outstanding loan and mortgage balances totaled $14.1 million, consistent with the prior fiscal year. The cost of capital (the interest paid on member deposits) was similar to 2011 at $3.7 million. Gross financial margin increased by $0.1 million (1.4%) over the previous year as a result of an increase in investment income. The combined categories of service charges, commissions and other revenue were $0.1 million (2.6%) lower in 2012.

The Board of Directors of CUA has declared a 5% dividend on Class A shares for holders of those shares as of December 31, 2012. The cost of the dividend after income tax is $0.2 million. CUA has met all regulatory, capital, liquidity and on-going operational requirements.

Over the past three fiscal years, the loan portfolio has increased by $48.0 million. Net loans write-off experience has averaged $0.6 million over the same time period. The loan delinquency at December 31, 2012 was 0.57%, improved from the December 31, 2011 balance of 0.7%. The industry standard is 1.50% of total loans. Operating expenses totaled $12.7 million in 2012, which represents 0% growth from the prior year.

These financial results reflect a continued strong financial foundation on which to grow and to provide full financial services to CUA's membership base.





CREDIT UNION ATLANTIC

Annual Report 2012

Review of Corporate Social Responsibility

CUA was very actively engaged in Corporate Social Responsibility (CSR) in 2012. Our key priority was to begin the implementation of our five-year CSR Strategy. The 2012-2016 CSR Strategy guided CUA in our goal to create a better place for our community, our members, our environment and our employees.

Community leadership is at the cornerstone of what CUA stands for as a caring, community-minded organization. We contribute in many ways through our financial support and volunteer time of our Team and Board of Directors. In 2012, over 4,000 volunteer hours were given to various charitable and non-profit organizations by staff and Board members. We also recognize that being part of the business community enables us to help the economy through direct employment, financial services to businesses, and purchasing goods and services from the local market.

As a member-owned financial institution, CUA is committed to helping and improving the communities we serve. We are proud of our ongoing involvement with local charities and events. In 2012, we were pleased to share over $50,000 in monetary support to our community, including the United Way of Halifax Region, the Marguerite Centre, the Lung Association of Nova Scotia and Junior Achievement of Nova Scotia.

Our commitment to being environmentally conscientious in our business operations and practices is also very important to us. We are excited to have pursued a partnership with Dalhousie University's College of Sustainability and completed an environmental baseline assessment in order to identify ways that we can reduce our environmental footprint. This assessment resulted in the creation of our 2013-2015 Environmental Plan, which includes a number of initiatives that we will implement as part of our commitment to the environment.

Our employees are the foundation that allows CUA to succeed and benefit our members. 2012 saw an even stronger focus on training and development, regular communications, as well as on creating a work environment that enables staff to achieve their individual and collective potential.

Grant Thornton

Consolidated Financial Statements

Credit Union Atlantic Limited

December 31, 2012

Contents

Grant Thornton

Independent auditor's report

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Halifax, NS
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To the members of
Credit Union Atlantic Limited

We have audited the accompanying consolidated financial statements of Credit Union Atlantic Limited (the "Credit Union"), which comprise the balance sheet as at December 31, 2012, the statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Atlantic Limited as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Halifax, Canada
March 26, 2013

Chartered Accountants

Credit Union Atlantic Limited
Consolidated statement of comprehensive income

Year ended December 31 (expressed in Canadian Dollars)	**2012**	2011
Financial revenue		
Loan interest	**$ 14,144,543**	$ 14,057,910
Investment income	**466,827**	218,053
Other interest income	**259,870**	323,578
	14,871,240	14,599,541
Financial expense		
Interest on deposits	**3,722,813**	3,674,614
Loan interest	**177,538**	156,928
Finders fees	**353,011**	300,521
	4,253,362	4,132,063
Gross financial margin	**10,617,878**	10,467,478
Other income (note 18)	**3,776,711**	3,875,372
Gross margin	**14,394,589**	14,342,850
Expenses		
General business	**3,404,493**	3,578,292
Depreciation	**558,357**	552,614
Members' security	**441,117**	405,257
Occupancy	**1,842,206**	1,764,399
Personnel	**5,834,533**	5,933,547
Provision for impaired loans (note 5)	**571,498**	415,686
	12,652,204	12,649,795
Income before other item and income taxes	**1,742,385**	1,693,055
Other item		
Atlantic Central stock dividend (note 12)	**-**	1,238,000
Income before income taxes	**1,742,385**	2,931,055
Income taxes (note 19)	**473,998**	792,352
Net Income	**$ 1,268,387**	$ 2,138,703
Other comprehensive loss (net of tax)		
Actuarial losses on retirement benefit obligation	**(108,259)**	(103,952)
Comprehensive income	**$ 1,160,128**	$ 2,034,751

See accompanying notes to the consolidated financial statements.

Credit Union Atlantic Limited
Consolidated balance sheet

December 31 (expressed in Canadian Dollars)	2012	2011
Assets		
Cash and cash equivalents (note 4)	$ **30,150,919**	$ 31,939,509
Members' loans (note 5)	**288,358,316**	273,696,392
Goodwill	**84,460**	84,460
Long term investments (note 6)	**6,732,821**	6,654,741
Other assets (note 7)	**607,960**	552,672
Income taxes receivable	**36,421**	-
Property and equipment (note 8)	**2,433,864**	2,664,460
Deferred income taxes (note 19)	**107,990**	77,574
	$ **328,512,751**	$ 315,669,808
Liabilities		
Payables and accruals	$ **2,064,314**	$ 2,480,535
Income taxes payable	-	47,185
Province of Nova Scotia Credit Union Loan Program (note 9)	**2,350,000**	2,350,000
Members' deposits (note 10)	**305,070,839**	292,242,749
	309,485,153	297,120,469
Members' equity (note 12)		
Members' shares (note 13)	**6,343,381**	6,803,264
Contributed surplus	**2,704,362**	2,704,362
Retained earnings (note 12)	**10,365,149**	9,318,748
Accumulated other comprehensive loss	**(385,294)**	(277,035)
	19,027,598	18,549,339
	$ **328,512,751**	$ 315,669,808

Commitments (note 14)

Approved by the Board of Directors

Director

Director

Credit Union Atlantic Limited
Consolidated statement of changes in members' equity
December 31, 2012 (expressed in Canadian Dollars)

	Members' Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity (note 12)
Balance at January 1, 2012	**$ 6,803,264**	**$ 2,704,362**	**$ 9,318,748**	**$ (277,035)**	**$ 18,549,339**
Net income	**-**	**-**	**1,268,387**	**-**	**1,268,387**
Dividends, net of tax	**-**	**-**	**(221,986)**	**-**	**(221,986)**
Redemption of members' shares, net of issuance	**(459,883)**	**-**	**-**	**-**	**(459,883)**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**(108,259)**	**(108,259)**
Balance at December 31, 2012	**$ 6,343,381**	**$ 2,704,362**	**$ 10,365,149**	**$ (385,294)**	**$ 19,027,598**

	Members' Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at January 1, 2011	$ 7,291,111	$ 2,704,362	$ 7,418,087	$ (173,083)	$ 17,240,477
Net income	-	-	2,138,703	-	2,138,703
Dividends, net of tax	-	-	(238,042)	-	(238,042)
Redemption of members' shares, net of issuance	(487,847)	-	-	-	(487,847)
Other comprehensive loss, net of tax	-	-	-	(103,952)	(103,952)
Balance at December 31, 2011	$ 6,803,264	$ 2,704,362	$ 9,318,748	$ (277,035)	$ 18,549,339

See accompanying notes to the consolidated financial statements.

Credit Union Atlantic Limited
Consolidated statement of cash flows

Year ended December 31 (expressed in Canadian Dollars)	**2012**	2011
Increase (decrease) in cash and cash equivalents		
Operating activities		
Income, before income taxes	**$ 1,742,385**	$ 2,931,055
Charges (credits) to income not involving cash:		
Adjustments (note 20)	**282,996**	(873,866)
Net changes in working capital (note 20)	**(619,799)**	281,249
	1,405,582	2,338,438
Taxes paid	**(465,884)**	(581,636)
Change in member activities (net)		
Change in members' loans	**(14,386,563)**	(17,325,355)
Change in members' deposits	**12,828,089**	18,348,931
	(618,776)	2,780,378
Financing activities		
Class A share dividends, net of income tax recovery	**(304,090)**	(238,042)
Net decrease in members' shares	**(459,883)**	(487,847)
Increase in Province of Nova Scotia Credit Union Loan Program	**-**	2,350,000
	(763,973)	1,624,111
Investing activities		
Net sales of long term investments	**(78,080)**	1,139,680
Net purchases of property and equipment	**(327,761)**	(399,260)
	(405,841)	740,420
Net (decrease) increase in cash and cash equivalents	**(1,788,590)**	5,144,909
Cash and cash equivalents, beginning of year	**31,939,509**	26,794,600
Cash and cash equivalents, end of year	**$ 30,150,919**	$ 31,939,509
Supplemental cash flow information		
Interest received	**$ 14,421,768**	$ 14,333,240
Interest paid	**4,041,919**	3,695,034

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Credit Union Atlantic Limited (the "Credit Union") is incorporated under the Nova Scotia Companies Act. The operation of the Credit Union is subject to the Nova Scotia Credit Union Act. Products and services offered to its members include loans, mortgages, chequing and savings, Mastercards, RRSPs, term deposits, online and telephone banking and financial planning. The Credit Union's head office is located at 7105 Chebucto Road, Halifax, Nova Scotia.
These financial statements were authorized for issue by the Board of Directors on March 26, 2013.

2. Summary of significant accounting policies

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). The principle accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of presentation
The Credit Union's functional and presentation currency is the Canadian dollar. The consolidated financial statements are presented in accordance with International Accounting Standards ("IAS") 1, "*Presentation of Financial Statements".*

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The estimates and underlying assumptions are continually reviewed on an ongoing basis based on historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances, including future expectations of future events. The resulting accounting estimates will, by definition, seldom equal the related actual results, and actual results may ultimately differ from these estimates.

Revisions to accounting estimates are recorded in the period in which the estimate reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements include the allowance for impaired loans, measurement of pension and employee benefits, measurements of fair value of financial instruments and the estimates of useful lives for depreciation of property and equipment.

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

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

Cash and cash equivalents
Cash and cash equivalents include cash on hand, balances with Atlantic Central and other financial institutions and accrued interest.

2. Summary of significant accounting policies (continued)

Members' loans and foreclosed assets
Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment (losses).

Member loans are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

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

Allowance for impaired loans
Loans are considered impaired when there has been deterioration in credit quality. In determining whether an impairment loss should be recorded in the income statement, the Credit Union makes judgments as to whether there is any observable data indicating an impairment triggered followed by measurable decrease in the estimated future cash flows from a loan. Deterioration of estimated future cash flows is determined considering the financial condition of the borrower, payment history and security pledged.

If there is evidence of impairment, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate. Short term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for member loans. If it is determined that no objective evidence of impairment exists for individual assets, the asset is included in a group of financial assets with similar credit characteristics and that group is assessed collectively for impairment. Assets that are individually assessed for impairment are not included in the collective assessment. The expected cash flows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience, future estimates based on current events and objective evidence of impairment similar to those in the portfolio.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recorded impairment loss is reversed. Any subsequent reversal of impairment loss is recognized in net income.

Member loans considered uncollectible are written off.

Revenue recognition
Revenue from loans is recorded on the accrual basis using the effective interest method. It is measured at the fair value of the consideration received or receivable and is recognized when it is likely the benefits associated with the transaction will be received by the Credit Union.

Interest and investment income is reported on an accrual basis using the effective interest rate method and is recognized in the statement of comprehensive income when the Credit Union's right to receive payment is established.

Members' deposits
All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

2. Summary of significant accounting policies (continued)

Income taxes
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Members' shares (note 13)
Class A shares, surplus shares, and members' shares are classified as equity, and represent a residual interest in the equity of the Credit Union. They are not covered by deposit insurance.

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

Property and equipment
Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized using the diminishing-balance ("DB") and straight-line ("SL") methods at the following rates:

Building	25 years SL
Equipment and furniture	20% - 50% SL/DB
Leasehold improvements	Lease term SL

Depreciation methods and useful lives are reviewed annually and adjusted if necessary.

2. Summary of significant accounting policies (continued)

Impairment of non-financial assets
Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of the value in use and fair value less costs to sell, the asset is written down accordingly.

Impairment charges are included in net income.

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

Mortgages held under administration
The Credit Union, under a Mortgage Origination Program, has the ability to refer certain mortgages to a third party. These mortgages, which are under the Credit Union's administration, are not the property of the Credit Union and are not reflected on the balance sheet. The Credit Union derecognizes mortgages when the risks and rewards have transferred to another organization. No gain or loss on the initial sale has been recorded by the Credit Union as a result of these transactions. Fees earned by the Credit Union to service these mortgages are recognized as the related services are provided and reported in income as other income. The balance of mortgages under administration has been disclosed in note 5.

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

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

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Credit Union transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and the Credit Union has transferred all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

2. Summary of significant accounting policies (continued)

Accumulated other comprehensive income is reported on the balance sheet as a separate component of members' equity (net of tax) and includes any unrealized gains and losses on available-for-sale financial assets. The Credit Union has classified its equity investments as available-for-sale; however, because there is no active market for these investments and their fair value cannot be estimated reliably, the Credit Union has not recorded any other comprehensive income as a result of these.

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

Financial asset / liability	Classification	Subsequent measurement
Cash and cash equivalents, on hand	Fair value through profit and loss	Fair value
Deposits with financial institutions	Loans and receivable	Amortized cost
Long term investments		
- shares	Available-for-sale	Fair value
- debentures	Held-to-maturity	Amortized cost
Members' loans (inc. accrued interest) and accounts receivable	Loans and receivables	Amortized cost
Members' deposits (inc. accrued interest), borrowings and payables	Other financial liabilities	Amortized cost
Province of Nova Scotia Credit Union Loan Program	Other financial liabilities	Amortized cost

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

Employee benefit obligations

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

The Credit Union provides post employment benefits through both defined benefit and defined contribution plans. The defined benefit plan only applies to employees who were employed by Halifax Civic Credit Union as of June 30, 2008 who joined the Credit Union as a result of an amalgamation. Other Credit Union staff and all new hires are required to join the Credit Union defined contribution pension plan.

The Credit Union's defined benefit obligation is calculated by independent actuaries at the balance sheet date using the Projected Unit Credit Method pro-rated on service and management's best estimate of discount rates, expected plan investment performance, salary escalation, and retirement age of employees.

Pension expense, for the defined benefit plan, includes the cost of pension benefits earned during the period, the expected return on plan assets, interest cost on pension obligations, and past service costs. The Credit Union recognizes all actuarial gains and losses arising from the defined benefit pension plan immediately in other comprehensive income.

2. Summary of significant accounting policies (continued)

Past service costs, resulting from modifications to the plan, are recognized in net income over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognized immediately in net income.

Pension expenses for the defined contribution pension plan include the required employer contributions. Contributions to the plan are recognised as an expense in the period that the relevant employee services are received.

Liabilities are recorded for employee benefits including salaries and wages, deductions at source, paid annual or sick leave, incentive pay plan and bonuses that are expected to be settled within 12 months of the balance sheet date. These represent present obligations resulting from employees' services provided to the balance sheet date and are calculated at the undiscounted amounts based on remuneration rates that the Credit Union expects to pay at the balance sheet date. The expected cost of incentive pay plan and bonus payments is recognized as a liability when the Credit Union has a present legal or constructive obligation to pay as a result of past events and the obligation can be estimated reliably.

Benefits such as medical care are non-vesting and expensed by the Credit Union as the benefits are taken by the employees.

Severance benefits are recognized as an expense when the Credit Union is committed demonstrably, without realistic opportunity for withdrawal, to a formal detailed plan to provide severance benefits under certain circumstances. If material benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

Standards, amendments and interpretations not yet effective
Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2013 or later periods that the Credit Union has decided not to early adopt. Other than the introduction of *IFRS 9* and *IAS 19*, these changes are not expected to have a material impact on the financial statements.

IFRS 9 – "Financial Instruments"

In November 2009, the IASB issued *IFRS 9 – "Financial Instruments",* introducing new requirements for classifying and measuring financial assets. This new standard replaces the requirements in *IAS 39 – Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets. *IFRS 9* is the first part of a multi-phase project to replace *IAS 39*. The main features of the new standard are:

- A financial asset will be classified as either fair value or amortized cost. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist.

- Classification of financial assets is based on the entity's business model for managing the financial asset and their contractual cash flow characteristics.

- Changes in the fair value of financial assets classified as fair value are recognized in profit or loss, except for the equity investments not held for trading, which may be held at fair value through other comprehensive income.

In 2012 the effective date for the mandatory implementation of *IFRS 9* was deferred to fiscal years beginning on or after January 1, 2015. Earlier application is permitted. The impact of *IFRS 9* on the Credit Union has not yet been determined.

2. Summary of significant accounting policies (continued)

IAS 19 – "Employee Benefits"

IAS 19 - "*Employee Benefits"* has been amended to eliminate the option to defer the recognition of actuarial gains and loans, enhance the guidance around measurement of plan assets and defined benefit obligations, streamline the presentation of changes in assets and liabilities arising from defined benefit plans and provide enhance disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after July 12, 2012.

Other standards and amendments have been issued but are not yet effective and are not expected to have a material impact. They include:

Standard	Effective Date (periods beginning on or after)
IFRS 7 – "Financial Instruments: Disclosures" – provides common disclosure requirements for offsetting arrangements.	January 1, 2013
IFRS 10 – "Consolidated Financial Statements" – defines the principle of control as the basis for determining which entities should be consolidated.	January 1, 2013
IFRS 11 – "Joint Arrangements" – deals with entities that have interests in arrangements that are jointly controlled.	January 1, 2013
IFRS 12 – "Disclosure of Interests in Other Entities" – provides enhanced disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.	January 1, 2013
IFRS 13 – "Fair Value Measurement" – sets out a single standard framework for fair value measures when other IFRS's require or permit them.	January 1, 2013
IAS 32 – "Financial Instruments: Presentation" – which clarifies requirements for offsetting financial assets and financial liabilities.	January 1, 2014

The Credit Union is currently assessing the impact of the new and amended standards.

3. Risk management

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

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

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

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

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

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

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

3. Risk management (continued)

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

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

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

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

4. Cash and cash equivalents

	2012	2011
Cash on hand and in current accounts	**$ 1,814,766**	$ 2,646,968
Deposits with financial institutions:		
Atlantic Central liquidity deposits	**28,050,569**	28,763,634
Other	**285,584**	528,907
	$ 30,150,919	$ 31,939,509

Required liquidity as defined in Regulation 19 of the Act is $30,592,692 (2011 - $29,299,182).
Actual liquidity at December 31, 2012 is $35,108,499 (2011 - $33,793,407).

5. Members' loans

	Total Loans	Impaired Loans (included in total loans)	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
December 31, 2012					
Consumer loans	**$ 77,925,162**	**$ 893,166**	**$ 641,524**	**$ 228,062**	**$ 77,283,638**
Consumer mortgages	**163,454,833**	**1,340,723**	**-**	**-**	**163,454,833**
Commercial loans and mortgages	**46,540,396**	**1,668,434**	**868,588**	**802,050**	**45,671,808**
Real estate held for resale	**19,011**	**-**	**-**	**-**	**19,011**
Accrued interest	**586,033**	**-**	**-**	**-**	**586,033**
Deferred fees	**1,342,993**	**-**	**-**	**-**	**1,342,993**
	$ 289,868,428	**$ 3,902,323**	**$ 1,510,112**	**$ 1,030,112**	**$ 288,358,316**
December 31, 2011					
Consumer loans	$ 74,698,846	$ 294,372	$ 625,151	$ 208,155	$ 74,073,695
Consumer mortgages	154,091,631	1,015,455	-	-	154,091,631
Commercial loans and mortgages	44,369,235	938,478	609,600	546,596	43,759,635
Real estate held for resale	254,609	-	-	-	254,609
Accrued interest	603,387	-	-	-	603,387
Deferred fees	913,435	-	-	-	913,435
	$ 274,931,143	$ 2,248,305	$ 1,234,751	$ 754,751	$ 273,696,392

Member loans can have either variable or fixed rate of interest and they mature within 1 month to 5 years. Loans may carry fixed rates or variable rates. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate.

The Credit Union's prime rate at December 31, 2012 was 3% (2011 – 3%).

In addition to members' loans noted above, the Credit Union administers mortgages in the amount of $11,040,965 (2011 - $14,600,144).

A breakdown of security held on a portfolio basis is as follows:

	2012	2011
Insured residential mortgages	**$ 103,506,570**	$ 100,889,021
Conventional residential mortgages	**70,644,698**	53,202,610
Commercial mortgages	**18,241,347**	18,048,179
Commercial loans secured by government guarantee	**9,760,838**	8,136,052
Consumer loans secured by other	**52,057,743**	51,761,433
Commercial loans secured by other	**19,346,978**	18,185,004
	$ 273,558,174	$ 250,222,299

5. Members' loans (continued)

Commercial loans that are not subject to a government guarantee all are secured by collateral ranging from specific assets to a general security agreement or personal guarantee. Consumer loans secured by other are secured by collateral such as vehicles, investments and property.

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

	2012	2011
31 to 60 days	**$ 497,182**	$ 661,067
61 to 90 days	**272,575**	96,338
91 to 180 days	**329,856**	428,893
Over 180 days	**659,242**	755,495
	$ 1,758,855	$ 1,941,793

The following is an analysis of the continuity for the allowance for impaired loans:

	2012	2011
Allowance, beginning of year	**$ 1,234,751**	$ 1,046,271
Provision for impaired loans	**571,498**	415,686
Interest on impaired loans	**77,694**	21,533
Recovery of loans written-off	**55,802**	147,297
Write offs	**(429,633)**	(396,036)
Allowance, end of year	**$ 1,510,112**	$ 1,234,751

6. Long term investments	**2012**	2011
Shares		
Atlantic Central	**$ 4,144,650**	$ 4,066,570
League Savings and Mortgage Company	**1,370,381**	1,370,381
League Data Limited	**100,230**	100,230
Other	**560**	560
	5,615,821	5,537,741
Debenture		
League Savings and Mortgage Company, maturing December 31, 2024	**1,117,000**	1,117,000
	$ 6,732,821	$ 6,654,741

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

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

7. Other assets	**2012**	2011
Accounts receivable	**$ 538,105**	$ 357,081
Prepaid expenses	**69,855**	195,591
	$ 607,960	$ 552,672

8. Property and equipment

	Land	Buildings	Furniture and equipment	Leasehold improvements	Total
Cost					
Beginning balance January 1, 2011	$ 201,908	$ 553,620	$ 4,029,582	$ 1,973,291	$ 6,758,401
Additions	-	112,637	207,455	79,668	399,760
Disposals	-	-	(111,186)	-	(111,186)
Balance on December 31, 2011	$ 201,908	$ 666,257	$ 4,125,851	$ 2,052,959	$ 7,046,975
Additions	-	-	271,043	56,718	327,761
Disposals	-	-	(121,532)	(133,013)	(254,545)
Balance on December 31, 2012	**$ 201,908**	**$ 666,257**	**$ 4,275,362**	**$ 1,976,664**	**$ 7,120,191**
Accumulated depreciation					
Balance at January 1, 2011	$ -	$ 136,834	$ 2,834,092	$ 969,661	$ 3,940,587
Depreciation expense	-	24,007	350,641	177,966	552,614
Disposals	-	-	(110,686)	-	(110,686)
Balance on December 31, 2011	$ -	$ 160,841	$ 3,074,047	$ 1,147,627	$ 4,382,515
Depreciation expense	-	26,650	359,699	172,008	558,357
Disposals	-	-	(121,532)	(133,013)	(254,545)
Balance on December 31, 2012	**$ -**	**$ 187,491**	**$ 3,312,214**	**$ 1,186,622**	**$ 4,686,327**
Net book value					
December 31, 2011	$ 201,908	$ 505,416	$ 1,051,804	$ 905,332	$ 2,664,460
December 31, 2012	**$ 201,908**	**$ 478,766**	**$ 963,148**	**$ 790,042**	**$ 2,433,864**

9. Province of Nova Scotia Credit Union Loan Program

	2012	2011
Interest only term loan, bearing interest at 2.15%, fully repayable January 20, 2016	**$ 2,350,000**	$ 2,350,000

The term loan is secured by an interest in all present and after acquired property.

10. Members' deposits	**2012**	2011
Chequing and demand deposits	**$ 134,408,756**	$ 127,951,930
Terms, RRSPs, RRIFs, TSFAs	**169,080,115**	162,653,970
Accrued deposit interest	**1,581,968**	1,636,849
	$ 305,070,839	$ 292,242,749

11. Credit facility

The Credit Union has a $15,000,000 line of credit with Atlantic Central. As at December 31, 2012, the Credit Union had drawn $nil (2011 - $nil) against the line of credit. Drawings on the line of credit are netted against the Credit Union's liquidity deposits (note 4). The line of credit bears interest at the credit union prime rate. As security, the Credit Union has provided an assignment of book debts.

12. Capital requirements/members' equity

The Credit Union's plan to manage equity is designed to establish a strong base for future growth, the payment of dividends on the Class A special equity shares, as well as provide a cushion in the event of market volatility. Members' equity consists of members' shares, surplus shares, Class A special equity shares, contributed surplus, retained earnings, and accumulated other comprehensive income. In accordance with the Credit Union Act, the Credit Union shall establish and maintain a level of equity that is not less than 5% of its assets. As at December 31, 2012, the Credit Union's equity was 5.79% (2011 – 5.88%) of its assets. Members' equity ratios are monitored regularly and reported to the Board monthly. The Credit Union equity ratios have been in compliance with the regulatory requirements throughout the year.

Atlantic Central stock dividend/restriction on distribution of members' equity

In 2011, the Credit Union received a non-cash stock dividend from Atlantic Central of $1,238,000 in the form of 12,380 Class NS shares having a redemption value of $100 per share. This amount has been included in income for 2011 with a corresponding future tax liability of $334,260, resulting in net income of $903,740 from this transaction.

Pursuant to directives issued by the regulator, CUDIC, the $903,740 net income and retained earnings resulting from this stock dividend transaction cannot be distributed until such time as total equity of the Credit Union is equal to or greater than 8% of total assets and retained earnings are equal to or greater than 4% of total assets.

13. Members' shares

Authorized:

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

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

13. Members' shares (continued)

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

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

	2012	2011
Issued and outstanding:		
60,818 (2011 – 65,217) Class A shares	**$ 6,081,800**	$ 6,521,700
15,237 (2011 – 15,059) member shares	**74,600**	73,561
336,238 (2011 – 357,260) surplus shares	**336,238**	357,260
	6,492,638	6,952,521
Less: Share issue costs	**(149,257)**	(149,257)
	$ 6,343,381	$ 6,803,264

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

The Class A shares may be redeemed at the option of the member, subject to Board approval once a period of not less than five years following their issuance date has passed, by giving ten days written notice and payment by the Credit Union shall be within thirty days of such notice. The Class A shares are also immediately redeemed upon the death of a shareholder. Subject to the provisions of the Act, the Credit Union may upon giving thirty days written notice, redeem the whole or any part of the Class A shares at any time. During the year, 4,399 Class A shares (2011 – 4,586) were redeemed for $439,900 (2011 - $458,600).

Members' shares

Member shares may be withdrawn at any time by giving ninety days written notice and payment by the Credit Union shall be within thirty days of such notice. During the year, 178 member shares were issued for $1,039 (2011 - 119 shares were redeemed for $567).

Surplus shares

Surplus shares may be withdrawn at any time by giving ninety days written notice and payment by the Credit Union shall be within thirty days of such notice. During the year, 21,022 surplus shares (2011 – 28,680) were redeemed for $21,022 (2011 - $28,680).

14. Commitments

Lease and other obligations
The approximate aggregate minimum annual payments for the Credit Union's leased facilities and other contractual obligations of the Credit Union are as follows:

	2012	2011
Less than 1 year	**$ 1,282,812**	$ 1,162,500
Between 1 and 5 years	**4,502,006**	3,595,788
More than 5 years	**2,539,467**	2,479,518

The Credit Union leases a number of its branches under operating leases. The leases typically run for a period of one to six years, with an option to renew the lease after that date.

During the year ended December 31, 2012, an amount of $1,259,213 (2011 - $1,251,980) was recognized as an expense through the statement of comprehensive income in respect of operating leases.

15. Related party transactions

The Credit Union entered into the following transactions with key management personnel, which are defined by *IAS 24 - "Related Party Disclosures"*, as those persons having authority and responsibility for planning, direction and controlling the activities of the Credit Union.

	2012	2011
Compensation		
Salaries and other short term employee benefits	**$ 412,628**	$ 985,603
Post employment pension plans	**36,642**	105,434
Severance benefits	**-**	354,106
	$ 449,270	$ 1,445,143
Loans to key management personnel		
Loans, mortgages and lines of credit advanced	**$ 1,423,471**	$ 2,586,415
Interest received on loans, mortgages and lines of credit advanced	**65,733**	120,091
Value of unadvanced loans, mortgages and lines of credit	**483,721**	477,337
Deposits from key management personnel		
Deposits	**$ 1,164,351**	$ 1,278,840
Interest paid on deposits	**19,197**	22,887

The Credit Union enters into transactions, arrangements and agreements involving directors, senior management staff in the ordinary course of business. Terms and conditions on the transactions, arrangements and agreements are the same terms and conditions which apply to Members, except they are offered reduced market interest rates on loans. They are also offered reduced fees on deposit accounts. None of the loans outstanding by key management personnel are impaired.

15. Related party transactions (continued)

As required by the Credit Union Act, remuneration paid to directors was as follows:

		2012		2011
Aggregate remuneration (included in compensation listed above)	**$**	**41,021**	$	50,276
Reimbursement of directors' expenses		**10,928**		8,816

16. Fair values of financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

No fair values have been determined for property and equipment or any other asset that is not a financial instrument. The Credit Union has excluded items which are considered short term in nature as their book value approximate fair value.

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

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

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

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

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

16. Fair values of financial instruments (continued)

	2012		2011	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Financial assets				
Members' loans	**$ 288,358,316**	**$ 293,621,055**	$ 273,696,392	$ 278,815,294
Financial liabilities				
Members' deposits	**305,070,839**	**305,080,172**	292,242,749	292,252,108

17. Interest rate sensitivity

The following table sets out the scheduled maturities or repricing dates, whichever occurs earlier, of the financial assets and liabilities as at December 31, 2012, together with the weighted average interest rates, subject to interest rate fluctuations.

(in thousands of dollars)

2012	**Within 1 year**	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**4 to 5 Years**	**Over 5 Years**	**Non Interest Sensitive**	**Total**	**Average Rate**
Financial assets									
Cash and cash Equivalents	**$ 28,915**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,236**	**$ 30,151**	**1.00%**
Members' loans	**77,521**	**51,384**	**50,882**	**49,632**	**45,413**	**13,089**	**437**	**288,358**	**5.16%**
	$ 106,436	**$ 51,384**	**$ 50,882**	**$ 49,632**	**$ 45,413**	**$ 13,089**	**$ 1,673**	**$ 318,509**	
Financial liabilities									
Members' deposits	**$ 152,140**	**$ 35,542**	**$ 10,870**	**$ 5,202**	**$ 11,265**	**$ -**	**$ 90,052**	**$ 305,071**	**3.00%**

December 31, 2011	Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years	Non Interest Sensitive	Total	Average Rate
Financial assets									
Cash and cash equivalents	$ 23,727	$ -	$ -	$ -	$ -	$ -	$ 8,213	$ 31,940	1.11%
Members' loans	65,227	59,676	42,969	40,141	49,919	15,228	536	273,696	5.48%
	$ 88,954	$ 59,676	$ 42,969	$ 40,141	$ 49,919	$ 15,228	$ 8,749	$ 305,636	
Financial liabilities									
Members' deposits	$ 140,121	$ 36,077	$ 16,792	$ 6,609	$ 3,918	$ -	$ 88,726	$ 292,243	2.03%

18. Other income

	2012	2011
Service charges	**$ 1,685,005**	$ 1,654,128
Fees	**1,108,271**	1,306,177
Commissions	**983,435**	915,067
	$ 3,776,711	$ 3,875,372

19. Income taxes

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

	2012	2011
Current tax expense		
Current period	**$ 464,373**	$ 513,389
Deferred tax expense		
Origination and reversal of temporary differences	**$ 9,625**	$ 284,337
Reduction in tax rate	**-**	2,228
Changes in unrecognized deductible temporary differences	**-**	(7,602)
	$ 9,625	$ 278,963
Total income tax expense	**$ 473,998**	$ 792,352

Income tax recognized in other comprehensive income:

	2012			2011		
	Before tax	**Tax benefit**	**Net of tax**	Before tax	Tax benefit	Net of tax
Defined benefit plan actuarial losses	**$ (148,300)**	**$ 40,041**	**$(108,259)**	$ (142,400)	$ 38,448	$ (103,952)

Income tax recognized in retained earnings:

	2012			2011		
	Before tax	**Tax deduction**	**Net of tax**	Before tax	Tax deduction	Net of tax
Dividends	**$ 304,090**	**$ (82,104)**	**$ 221,986**	$ 326,085	$ (88,043)	$ 238,042

19. Income taxes (continued)

	Balance January 1, 2011	Recognized in net income	Recognized in other comprehensive loss	Balance December 31, 2011	Recognized in net income	Recognized in other comprehensive loss	**Balance December 31, 2012**
Deferred tax liabilities							
Property and equipment	$ (53,655)	$ 3,390	$ -	$ (50,265)	$ 21,079	$ -	**$ (29,186)**
Stock dividend	-	(255,960)	-	(255,960)	-	-	**(255,960)**
Deferred tax liability	(53,655)	(252,570)	-	(306,225)	21,079	-	**(285,146)**
Deferred tax assets							
Pension obligation	187,029	(13,635)	38,448	211,842	(59,549)	40,041	**192,334**
Other accruals	-	-	-	-	26,938	-	**26,938**
Allowance for impaired loans	144,889	5,088	-	149,977	7,435	-	**157,412**
Losses carried forward	17,243	(14,669)	-	2,574	-	-	**2,574**
Goodwill	21,967	(3,134)	-	18,833	(2,914)	-	**15,919**
Other	616	(43)	-	573	(2,614)	-	**(2,041)**
Deferred tax asset	371,744	(26,393)	38,448	383,799	(30,704)	40,041	**393,136**
Net deferred tax asset	$ 318,089	$ (278,963)	$ 38,448	$ 77,574	$ (9,625)	$ 40,041	**$ 107,990**

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

Year ended December 31	**2012**	2011
Income before income taxes	**$ 1,742,385**	$ 2,931,055
Combined Canadian basic federal and provincial income tax rate	**44.00%**	44.00%
Expected income tax	**$ 766,650**	$ 1,289,664
Effect on income tax of:		
Non-taxable dividends	**$ (18,089)**	$ (20,296)
Credit Union deductions/temporary differences	**(294,643)**	(498,570)
Permanent differences	**14,046**	21,048
Other	**6,034**	506
Current income tax	**(292,652)**	(497,312)
Total income tax expense	**$ 473,998**	$ 792,352

20. Cash flow adjustments and changes in working capital

		2012		2011
Adjustments:				
Depreciation	**$**	**558,357**	$	552,614
Allowance for impaired loans		**(275,361)**		(188,480)
Income from stock dividend		**-**		(1,238,000)
	$	**282,996**	$	(873,866)
Net changes in working capital:				
Other assets	**$**	**(55,287)**	$	67,756
Payables and accruals		**(564,512)**		213,493
	$	**(619,799)**	$	281,249

21. Pension plans

Defined benefit pension plan

Halifax Civic Credit Union Limited, which amalgamated with the Credit Union as at July 1, 2008, established a defined benefit pension plan for its employees in 2003. The most recent independent actuarial valuation on this pension plan for funding purposes was performed as at December 31, 2011. The next actuarial valuation is scheduled to occur in 2014.

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

21. Pension plans (continued)

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

	2012	2011
Change in accrued benefit obligation:		
Balance, beginning of year	**$ 2,846,900**	$ 2,539,700
Current service cost	**102,000**	94,100
Interest cost	**148,900**	133,100
Employee contributions	**29,400**	28,200
Actuarial losses	**164,400**	51,800
Benefits paid	**-**	-
Balance, end of year	**$ 3,291,600**	$ 2,846,900
Change in fair value of plan assets:		
Balance, beginning of year	**2,062,300**	1,847,000
Employer contributions	**312,800**	140,600
Employee contributions	**29,400**	28,200
Expected return on plan assets	**158,600**	137,100
Actual gains (losses)	**16,100**	(90,600)
Benefits paid	**-**	-
Balance, end of year	**2,579,200**	2,062,300
Accrued benefit liability at December 31	**$ 712,400**	$ 784,600

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

Discount rate	**4.00%**	5.00%
Expected long-term rate of return on plan assets	**7.1%**	7.1%
Rate of salary increase	**2.0%**	3.0%
Inflation rate	**2.0%**	2.0%
Remaining service life	**13.5 years**	13.5 years

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

Current service cost	**$ 102,000**	$ 94,100
Interest cost on benefit obligation	**148,900**	133,100
Expect return on plan assets	**(158,600)**	(137,100)
Pension expense recognized in net income	**$ 92,300**	$ 90,100
Actuarial loss recognized in other comprehensive loss during the year	**$ 148,300**	$ 142,400
Cumulative actuarial losses recognized in comprehensive loss	**$ 527,800**	$ 379,500

21. Pension plans (continued)

The actual return on plan assets was $174,700 (2011 - $46,500).

The expected return on plan assets for the defined benefit pension plan is comprised of the estimated returns for each major asset consistent with market conditions on the valuation date and the asset mix of the pooled funds that make up the plan assets, additional returns assumed to be achievable due to active equity management, and implicit provision for expenses expected to be paid from the pension fund.

The investment assets mix of the defined benefit pension plan are as follows:

	2012	2011
Fixed income	**31%**	32%
Canadian equity	**22%**	22%
Foreign equity	**42%**	37%
Cash and cash equivalents	**5%**	9%
	100%	100%

The Credit Union expects employer contributions of approximately $311,900 to be paid for the next fiscal year.

Defined contribution pension plan
Defined contribution pension plan costs amounted to $264,667 (2011 - $267,269).