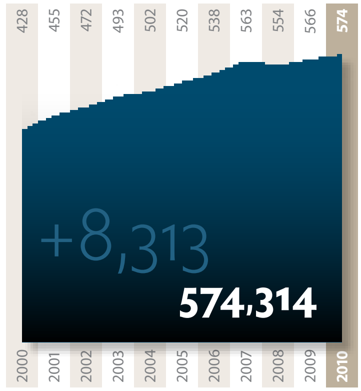
Credit Union Central *of* Manitoba

ANNUAL REPORT 2010

All figures preliminary unaudited results

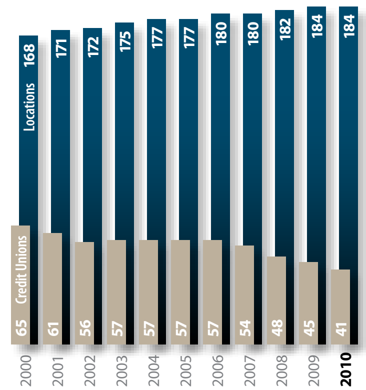
Where credit unions have Winnipeg and non-Winnipeg branches, the location of the home branch is used for these statistics

MEMBERSHIPS *(thousands)*



Manitoba credit unions ended the year with 8,313 more memberships than they started with in 2010, an increase of 1.5%. Membership in Winnipeg-based credit unions now stands at 244,905 (42.6% of the provincial membership figure of 574,314) and membership in credit unions based outside Winnipeg is 329,409 (57.4%). While most of the increase came at credit unions outside Winnipeg, there are credit unions based outside Winnipeg with branches in Winnipeg, and vice versa. In the 10 years since 2000, membership in Manitoba credit unions has increased by 146,266 (34.2%).

CREDIT UNIONS AND LOCATIONS



Two amalgamations took place in the provincial credit union system in 2010. On January 1, Lowe Farm Credit Union joined four others that had merged to form Access Credit Union a few months earlier (Agassiz, Altona, Dufferin and Heartland) and in October, four Interlake credit unions (Arborg, Eriksdale, Gimli and Riverton) merged to form Noventis Credit Union. Three new branches opened in 2010, two in Winnipeg and one in Brandon, but there were also closures in three communities where business volumes and resource issues were such that branch operations were no longer sustainable.

MANITOBA'S CREDIT UNIONS

serve 115 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

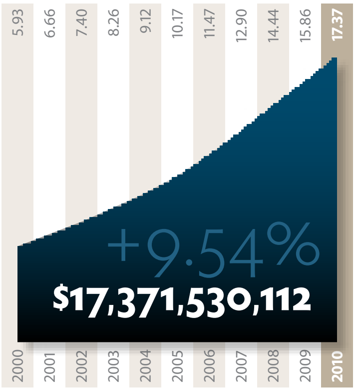
In 65 of those communities, a credit union is the only financial institution in place to serve local residents and businesses.

Altona
Amaranth
Arborg
Ashern
Austin
Baldur
Beausejour
Belmont
Benito
Birds Hill
Binscarth
Birch River
Birtle

Boissevain
Brandon
Bruxelles
Carberry
Carman
Cartwright
Cypress River
Dauphin
Deloraine
Dominion City
Emerson
Erickson
Eriksdale

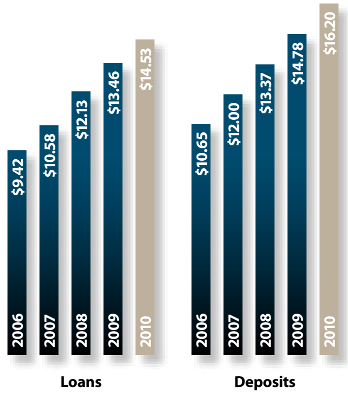
Ethelbert
Flin Flon
Fisher Branch
Gimli
Gilbert Plains
Gillam
Gladstone
Glenboro
Glenella
Grandview
Gretna
Grunthal
Hamiota

SYSTEM ASSETS *(billions of dollars)*



Manitoba credit unions ended the year with $17,371,530,112 in assets, a 9.54% increase over 2009. Winnipeg-based credit unions account for $7.52 billion (43.3%) of total assets and credit unions based outside Winnipeg account for $9.85 billion (56.7%). Since 2000, credit unions have collectively grown at an average annual rate of 11.35% and are nearly triple the size (193%) they were a decade ago.

LOANS AND DEPOSITS *(billions of dollars)*



The increase in lending, at 7.95%, was much lower in 2010 than it has been in recent years. Growth for the year by category saw commercial and personal loans increase by 9.8% and 8.4%, respectively. An increase of just 2.2% in agricultural lending was not surprising, given the weather in Manitoba and the state of the global economy over the past couple of years. Deposit growth of 9.6% was very healthy but, like loans, lower than it has been in recent years.

SYSTEM EQUITY *(as a percentage of assets)*

Consolidated system equity grew by $110.1 million over the course of 2010, ending the year at $1,198.6 million ($1.2 billion). This figure includes $1,021.8 million in credit union equity, $162.1 million held by the Credit Union Deposit Guarantee Corporation (CUDGC) and $14.7 million held by CUCM. A strong equity position is a key measurement of the strength of credit unions and the entire Manitoba system. In addition to the security that comes from this position, CUDGC provides members with a 100% guarantee on all member deposits and interest earned on deposits.

Hartney
Headingley
Holland
Inglis
Inwood
Kenton
Killarney
Lac du Bonnet
Landmark
La Rivière
Laurier
La Salle
Lowe Farm
MacGregor
Manitou
Mariapolis
Melita
Miami
Miniota
Minnedosa
Minto
Moosehorn
Morden
Morris
Neepawa
Newdale
Ninette
Niverville
Oak Bank
Oak Bluff
Oak Lake
Oak River
Oakburn
Oakville
Pilot Mound
Pinawa
Pine Falls
Pine River
Plum Coulee
Plumas
Portage la Prairie
Reston
Rivers
Riverton
Roblin
Rorketon
Rosenort
Rossburn
Russell
St. Lazare
Ste. Rose du Lac
Sandy Lake
Sanford
Selkirk
Shilo
Shoal Lake
Souris
Sprague
Starbuck
Steinbach
Stonewall
Strathclair
Swan Lake
Swan River
Teulon
The Pas
Thompson
Treherne
Virden
Vita
Waskada
Whitemouth
Winkler
Winnipeg
Winnipeg Beach
Winnipegosis

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Credit Union Central *of* Manitoba

ANNUAL REPORT 2010

Credit Union Central *of* Manitoba [cucm]

is the trade association and service provider for the province's 41 autonomous credit unions and is governed by Manitoba's *Credit Unions and Caisses Populaires Act*. Cucm manages liquidity reserves, monitors credit granting procedures and provides trade services in areas such as corporate governance, government relations, representation and advocacy. Cucm also provides payment and settlement systems, banking, treasury, human resources, research, communications, marketing, planning, lending, product/service r & d, business consulting and legal services to credit unions. Manitoba credit unions jointly own cucm and representatives from nine provincial districts sit on its board of directors. Cucm is financed through assessments and fee income derived through its operations.

Credit Union Central *of* Manitoba

ANNUAL REPORT 2010

"The Prairie Central has been an extremely useful exercise, and much of the work done on it will guide CUCM in considering the business model it will require in order to meet the needs of Manitoba's credit unions into the future."

RUSSELL FAST
Chairman, Board of Directors

With Atlantic Central now operating as the sole trade association for credit unions on Canada's east coast and Central 1 firmly in place representing the interests of B.C. and Ontario credit unions, Manitoba, Saskatchewan and Alberta remain the only three independent provincial centrals.

Until early 2010, it appeared as though that would change. The Prairie Central would have brought the three together, but concerns on the part of the government of Alberta ended the discussions.

The Prairie Central has been an extremely useful exercise, and much of the work done on it — in the areas of the strategic approach, operating principles and implementation and integration principles, in particular — will guide CUCM in considering the business model it will require in order to meet the needs of Manitoba's credit unions into the future.

The principles covered a wide range of items: from the necessity to operate on a user-pay basis with full costing and no cross-subsidization across business lines; to providing a price, service and product advantage to its member credit unions; to the importance of openness and transparency with member credit unions.

The principles in the Prairie Central were not foreign to Manitoba credit unions.

Openness and the principle of a consultative culture have long guided the actions of CUCM. For over a decade (going back to the *Made in Manitoba* and *Doing the Right Things Right* studies), CUCM has been strongly encouraging dialogue and engaging the system at all levels in helping to plan for the future of their central five, 10, 15 years out. At the CUCM board level, the scenario planning process — in which we defined plausible future states and developed strategies around them — has been our guide for the past six years as we evaluated annual operational plans, new business lines, and considered mergers.

Manitoba credit unions are also well familiar with the arguments behind central mergers, which largely have to do with the environment in which they themselves operate.

The financial services industry is constantly changing, challenging credit unions to respond to advances in competition and technology, and regulatory requirements in areas such as fraud, privacy, financial reporting standards and money laundering. Demands on their resources are more numerous and complex than ever and show no sign of abating. The demands arise from competition in the industry, as financial institutions introduce new products and services and go to battle on rates to attract business. They arise from increased regulation, particularly in the wake of the

international financial crisis of 2008–2009 that financial institutions still feel the effects of, and new rules such as those on mortgages the government is bringing in to try to reign in Canadians' rising personal debt levels. Technology allows credit unions to introduce exciting new services to members, some of whom rarely visit a branch, but it also allows criminals to rob Canadian financial institutions of millions of dollars a year and requires technological counter attacks: whether to promote growth or prevent loss, the demands of technology are expensive.

One way many credit unions have responded to these challenges and their attendant costs is to merge. Manitoba has far fewer and much larger credit unions than it did 10 years ago and a plausible scenario suggests there could be fewer than 30 and more than $25 billion in assets by 2015.

Boiled down to its essence, credit unions' needs are changing and the credit union environment itself is changing, such that centrals are finding it more and more challenging to meet the needs of all credit unions while keeping down the costs of the services they provide to credit unions: these are the primary drivers of central mergers in Canada.

As noted above, CUCM and Manitoba credit unions have been giving very careful consideration to the future business model required for CUCM. It has by necessity been a long process, as the kind of fundamental change required cannot happen overnight — nor should it.

The next step for CUCM is to take a step back. At a special board planning session in March of 2011, we will consider our next steps. The clearest option to our current business model is a partnership/merger with SaskCentral. An analysis of the value to Manitoba credit unions through a merger with SaskCentral has been completed. This analysis, which was completed by overlaying the principles and strategies embedded in the Prairie Central to a Manitoba-Saskatchewan partnership, will be assessed against CUCM's ability to provide competitive services as an independent central to its member credit unions in a changing credit union environment. Both of these options will be reviewed within the context of a national wholesale financial services entity — what it might look like and if and when other centrals in Canada support moving in that direction.

CUCM's business model was, of course, not the only topic that occupied the board in 2010. At our 2010 June planning session, we reviewed benchmarking data that showed CUCM performs very efficiently, against industry benchmarks, and indicators of change

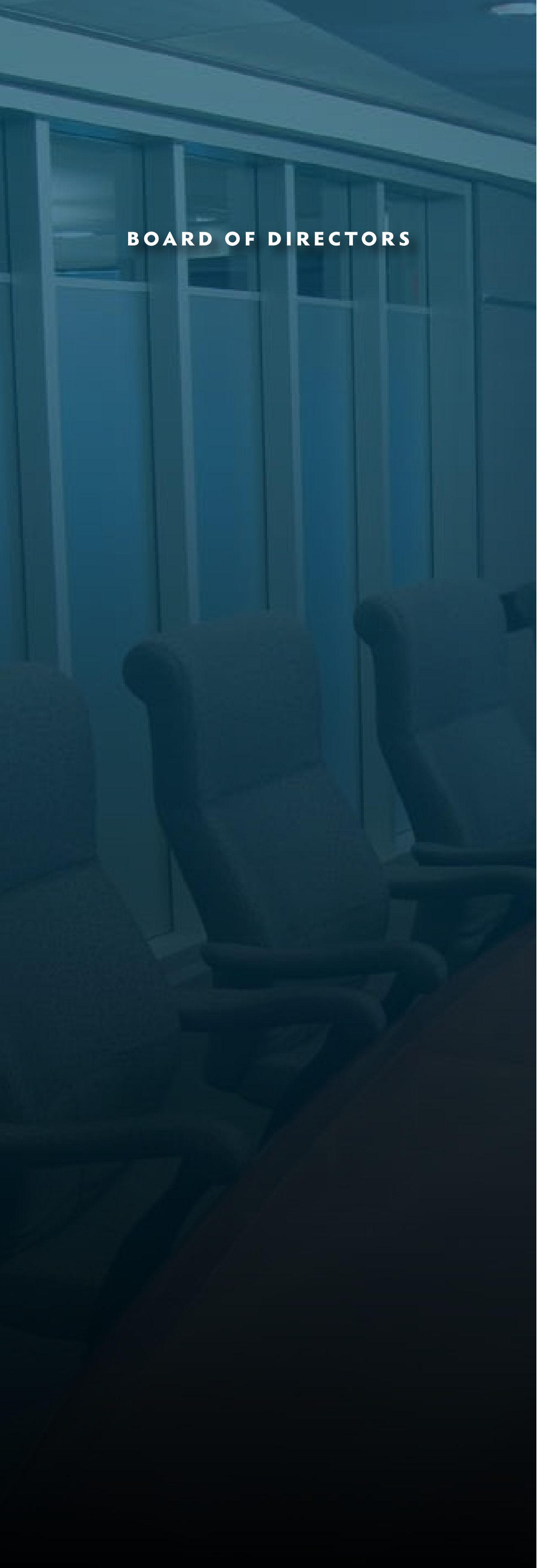
Manitoba has far fewer and much larger credit unions than it did 10 years ago.... Boiled down to its essence, credit unions' needs are changing

that helped us further define the potential size and make-up of the Manitoba credit union system in 2015 (noted above). In representing the interests of the credit unions we represent on the board, we evaluated and signed off on major projects and initiatives described elsewhere in this report, as well as CUCM's monthly financial reports, board committee activities, board and CUCM policies, and the organization's monthly financial performance.

I would like to take this opportunity to thank my fellow board members for the exemplary ways in which you represent the interests of not only your districts, but of all Manitoba credit unions. The spirit on the board of working for the common good truly exemplifies our international principle of "cooperation among co-operatives."

I would also like to acknowledge the contributions of CEO Garth Manness, not just on the merger file, but on leading CUCM's senior managers and employees who — despite the many distractions related to the organization's future business model — continued to provide services to credit unions that helped them achieve success in 2010.

RUSSELL FAST
Chairman, Board of Directors



BOARD OF DIRECTORS

[CHAIR]

DISTRICT 1
Russell Fast

Board meeting attendance: 15/15

[FIRST VICE-CHAIR]

DISTRICT 8
Alexander (Sandy) Wallace

Board meeting attendance: 14/15

[SECOND VICE-CHAIR]

DISTRICT 9
Wayne McLeod

Board meeting attendance: 14/15

DISTRICT 2

Margaret Day

Board meeting attendance: 15/15

DISTRICT 5

Peter Enns

Board meeting attendance: 15/15

DISTRICT 3

Rose Marie Couture

Board meeting attendance: 15/15

DISTRICT 6

Lee Gregory

Board meeting attendance: 15/15

DISTRICT 4

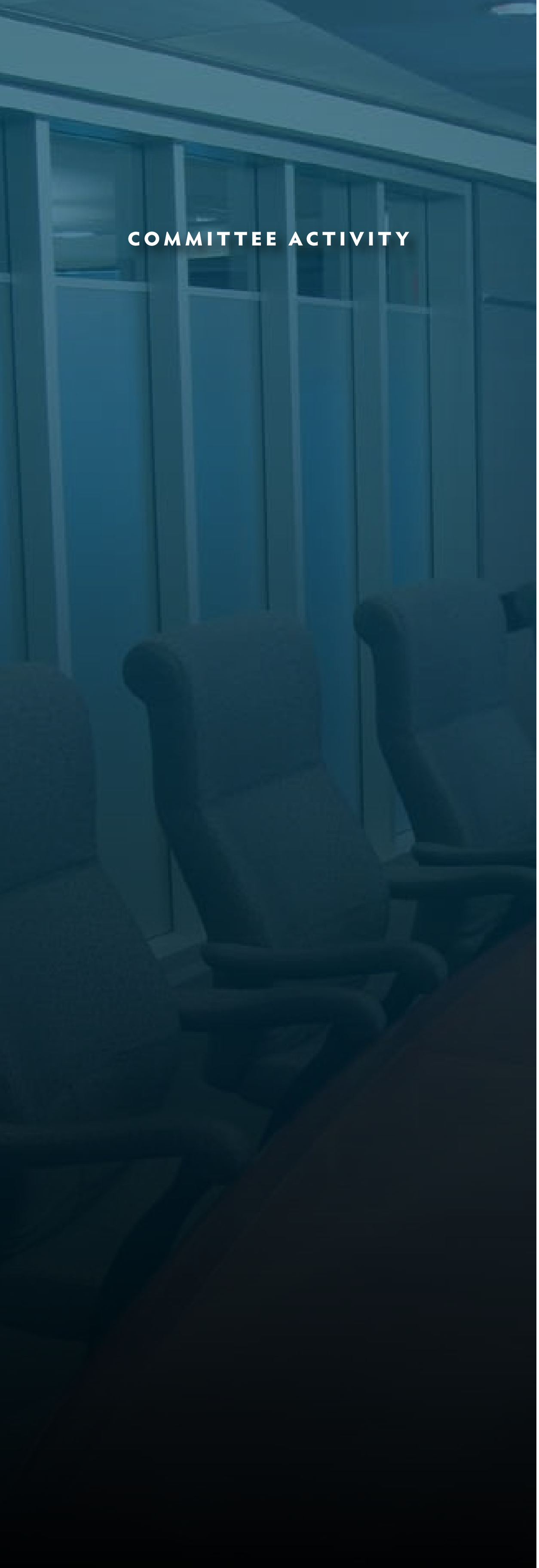
Dave Abel

Board meeting attendance: 15/15

DISTRICT 7

Don Farr

Board meeting attendance: 15/15



COMMITTEE ACTIVITY

As described in the Message from the Chair, the board spent a great deal of time and effort in 2010 on issues related to CUCM's future business model.

In addition to this work, the board continued to deal with the many reports, issues, committee tasks and other matters that regularly come before it.

Throughout 2010, the board approved changes to CUCM's Corporate Policy Manual and Human Resources Manual (as recommended by the Executive Committee), Lending Policy (as recommended by Credit Committee, Level III) and Investment Policy (as recommended by the Investment Committee). The board approved a new Securities Pledging Policy for CUCM and a job description for the Audit Committee chair.

The board continued its usual governance processes, including the annual CEO assessment, the annual board self-assessment, and the quarterly board meeting assessments. A process was undertaken in late 2010 to refresh the board assessment process.

Assessments were also completed by the Audit Committee and Conduct Review Committee.

In May 2010, System Credit Committee, Level IV was disbanded in accordance with recommendations arising from the system credit review.

EXECUTIVE COMMITTEE

Meeting attendance

[CHAIR]	***Russell Fast***	4/4
[FIRST VICE-CHAIR]	***Sandy Wallace***	4/4
[SECOND VICE-CHAIR]	***Wayne McLeod***	4/4

The Executive Committee deals with policy issues, board planning activities, and goal setting for the CEO. It also provides direction, assistance and support on items that require committee review but which do not fall under the purview of any of the board's other committees.

AUDIT COMMITTEE

Meeting attendance

[CHAIR]	***Peter Enns***	3/3
[VICE-CHAIR]	***Dave Abel***	3/3
	Margaret Day	3/3
	Lee Gregory	3/3

The mandate of the Audit Committee is to review the annual audited financial statements with management and the external auditor before the financial statements are approved by the board. In its review, the committee considers compliance with regulatory requirements, accounting principles, and CUCM practices. It also reviews the non-audit services performed for the company by the external audit firm, any significant litigation claims, and establishes whether management or the external or internal auditors are aware of illegal or unethical activities that might affect the organization. With the internal auditor, the committee reviews any high-risk recommendations made to management on the subject of internal control, financial risk or process improvement.

CONDUCT REVIEW COMMITTEE

Meeting attendance

[CHAIR]	***Peter Enns***	2/2
[VICE-CHAIR]	***Dave Abel***	2/2
	Margaret Day	2/2
	Lee Gregory	2/2

The Conduct Review committee carries out duties required by the Cooperative Credit Associations Act. *It applies CUCM's conflict of interest policies and procedures in reviewing conflict of interest situations and all transactions with related parties of CUCM.*

INVESTMENT COMMITTEE

Meeting attendance

[CHAIR]	***Rose Marie Couture***	3/3
[VICE-CHAIR]	***Lee Gregory***	3/3
	Peter Enns	3/3
	Don Farr	3/3

The Investment Committee monitors the general, liquidity and liquidity pool investment policies of CUCM. It also deals with and reports on exceptions to policy, and reviews, approves and presents for board approval any investment opportunity pursuant to the General Investment Policy.

"CUCM's business model has served credit unions well. However, our vision, that 'CUCM serves credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision,' makes no assumptions about the form CUCM must assume."

GARTH MANNESS
President and Chief Executive Officer

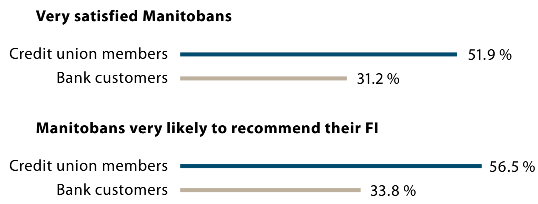
MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Manitoba credit unions' combined assets grew by 9.54 per cent in 2010, a very impressive figure given the lingering effects of the global recession. Loan growth of eight per cent and deposit growth of 9.6 per cent were also very solid. Credit union equity kept pace with assets and has now passed the $1 billion mark, thus ensuring that credit unions continue to rest on very solid financial foundations.

The composition of credit unions' branch networks continues to evolve, as does the make-up of the system itself. In 2010 there were two amalgamations. On January 1 of 2010, Lowe Farm (hitherto the oldest original credit union in the province) joined the four other credit unions that had merged in mid-2009 to form Access Credit Union, and four Interlake credit unions joined forces to create the eight-branch, $420-million and 23,000-member Noventis Credit Union. Other credit unions opened new branches or engaged in upgrades or renovations, all of which delivered to Manitobans the combination of in-person and electronic delivery of service that our research tells us they want.

Growth is vital to financial institutions, as it is to all businesses, and comes in part from excellent customer service. In CUCM's annual market research survey, credit unions were rated higher than their competitors on a wide variety of competitive differentiators. On two umbrella questions — overall satisfaction with the primary financial institution and the likelihood to recommend — very satisfied credit union members outnumbered very satisfied competitors' customers by a ratio of five to three. Our overall findings — that, among other things, credit unions are highly trusted and held in high regard by Manitobans — are supported by independent research that included, in 2010, a survey conducted for Jory Capital by Probe Research, and the triennial survey of small business banking conducted by the Canadian Federation of Independent Business. High regard for credit unions is evident in Manitobans' actions: according to our 2010 research, credit unions' consumer market penetration is at an all-time high of 47 per cent, while it sits at 48 per cent for small and medium-sized businesses.

As a service provider and trade association for Manitoba's 41 credit unions, CUCM offers products and services in key areas that support credit unions' continued success. We provide solid returns to credit unions in managing their statutory liquidity (and the excess liquidity they choose to invest with CUCM), a mandated second set of eyes on large loans, and a full suite of core banking and cheque clearing services. We also offer human resources, business consulting, research, marketing, communications, and procurement services. The goal of all our offerings is to maximize the value we deliver to credit unions.



Our ongoing work, projects and new initiatives point to ways in which we are committed to the strategic goal of guiding the evolution of CUCM in a manner that benefits credit unions. Some of the highlights from 2010 — including the continued implementation of Opics (CUCM's treasury system), CUCM's conversion to the eroWORKS banking system and the implementation of a new accounting system — are described elsewhere in this report.

Our service offerings reach beyond credit unions. In 2010, the four Manitoba caisses populaires and la Fédération des caisses populaires du Manitoba (their central) merged into a single entity, Caisse Populaire Groupe Financier (Caisse Financial Group). With the merger, the caisse system added to the services it had already been purchasing from CUCM and we now provide to them liquidity management, banking, clearing and credit adjudication services. The caisses' guarantor (Société d'assurance-dépôts des caisses populaires) merged on January 1, 2011 with the Credit Union Deposit Guarantee Corporation and was renamed the Deposit Guarantee Corporation of Manitoba.

CUCM also monitors the economic and competitive environments and shares its findings with credit unions in semi-annual Strategic Intelligence Reports that provide a wealth of information to credit unions about the economy, new products and services, the competition, and the perceptions, noted earlier, that Manitobans have of credit unions. We also monitor the legislative environments — directly, in Manitoba, and through Canadian Central at the federal level — and represent credit unions' shared interests by taking action with government on items that have the potential to affect them. For example, CUCM was closely involved with government on changes, enacted in 2010, to the *Credit Unions and Caisses Populaires Act*. We were also invited to pre-budget consultations with the provincial Department of Finance.

We also engage our member-owners in direct conversations about our plans, projects, priorities and outlooks during annual district meetings, semiannual planning meetings, our annual meeting, and other opportunities credit unions make available to us. These conversations are extremely valuable, as we get to hear directly from credit unions about issues they face, and whether we are fulfilling their needs through our activities.

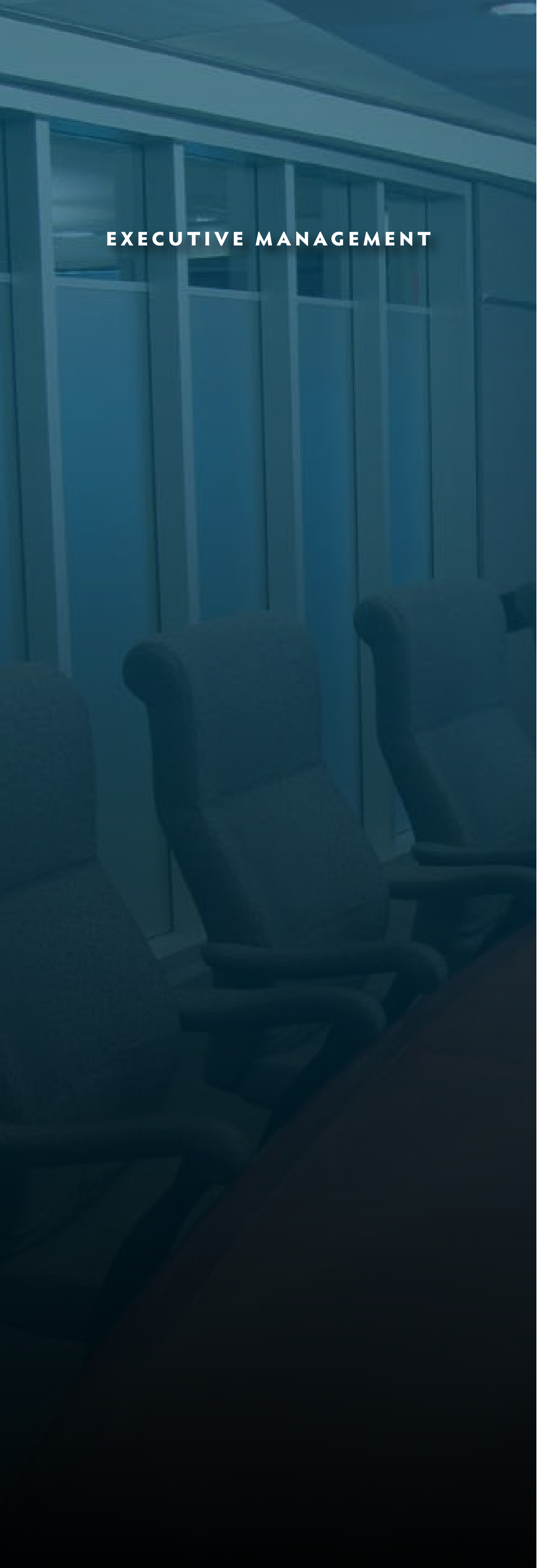
CUCM's business model has served credit unions well. However, our vision, that "CUCM serves credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision," makes no assumptions about the form CUCM must assume. Based on the composition of provincial credit unions and the system of centrals nationally, we know that remaining an independent

CUCM offers products and services in key areas that support credit unions' continued success.…The goal of all our offerings is to maximize the value we deliver.

provincial central will present challenges at some point. I believe that the prudent, strategic approach that our board — under the leadership of Chairman Russ Fast — is taking in its considerations of CUCM's business model will serve credit unions well and that the business model CUCM adopts will be the best one for credit unions into the foreseeable future.

To their credit, through all of the discussions about mergers and the necessity for change, CUCM's employees have remained committed to our vision and the goals and objectives of our organization. The results of our annual employee survey revealed, once again, that CUCM employees know who they serve, how their efforts benefit credit unions and, perhaps more importantly, that they are proud to work for this company and motivated to go the extra mile for our member-owners. I would therefore like to take this opportunity to thank each and every member of our staff for the work they carried out on behalf of Manitoba credit unions in 2010.

GARTH MANNESS
President and Chief Executive Officer



EXECUTIVE MANAGEMENT

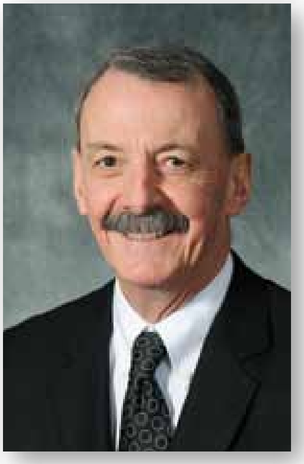
PRESIDENT *and*
CHIEF EXECUTIVE OFFICER
Garth Manness

VICE-PRESIDENT,
BUSINESS SERVICES
Brian Peto

CORPORATE SECRETARY
and DIVISION MANAGER,
CORPORATE SERVICES
Dale Ward





Top row (left to right)

CHIEF FINANCIAL OFFICER *and* TREASURER
Barrie Davidson

SENIOR CONSULTANT TO THE CEO
Bob Lafond

DIVISION MANAGER,
BANKING & PAYMENT SERVICES
Wilson Griffiths

DIRECTOR, HUMAN RESOURCES
Pat Gifford

Middle row

DIRECTOR, STRATEGIC SOLUTIONS
Louise Smith

DIRECTOR, LENDING SERVICES
Bernard C. Carling

Bottom row

DIRECTOR, RISK MANAGEMENT
Dina Long

DIRECTOR, TREASURY SERVICES
Louise Thiessen

CREDIT UNION CENTRAL *of* MANITOBA

VISION

CUCM serves Manitoba's credit unions by providing leadership and ensuring the delivery of high-value products and services that help them achieve their vision.

MISSION

CREDIT UNION CENTRAL OF MANITOBA EXISTS TO

Help Manitoba's credit unions meet their business needs.
Assist Manitoba credit unions in providing services to their members.
Provide trade association services for Manitoba's credit unions.
Value/promote co-operative principles.

CORPORATE VALUES

Respect for People

All individuals are highly valued and are treated equitably.
We value work-life balance.

Integrity

We are reliable in our word, honouring commitments and promises.

Excellence

In all we do, we are committed to the highest standards of performance, competence, and efficiency.

Service

We serve Manitoba credit unions and their members.
We steward the assets and affairs of the corporation for the benefit of Manitoba credit unions.

GUIDING PRINCIPLE

Learn from the past, excel in the present and prepare for the future.

The year in review

As provincially regulated organizations, having the government on side with the decisions credit unions make about their common practices and progression into the future is of paramount importance. Representing the interests of credit unions with government is one of the many functions Credit Union Central of Manitoba (CUCM) carries out on behalf of Manitoba credit unions.

After extensive consultation with the province's financial co-operative systems through the Law Review Committee process, in 2010 the provincial government enacted changes to the *Credit Unions and Caisses Populaires Act* that allow for significant change to the structures of the province's credit union and caisse populaire systems. The changes accommodate the formation of an interprovincial central, such as that contemplated during the Prairie Central discussions, and allow credit unions to operate outside Manitoba under a federal charter.

The changes also allowed the consolidation of provincial caisses populaires and la Fédération des caisses populaires du Manitoba Inc., their central, into a single organization. They also allowed for the amalgamation of the separate deposit guarantee corporations for credit unions and caisses populaires, which occurred January 1, 2011.

Other amendments to the Act and regulations allow credit unions to enter into loan syndications with partners outside the credit union system, clarify conditions on access to credit union member registries and penalize misuse of same, mandate that credit unions provide four months' notice of a branch closure, and allow an annual or other general member meeting to be held in two or more locations simultaneously and linked electronically.

Credit Union Central of Canada (CUCC) tracks federal legislation that has the potential to affect credit unions. In its budget announcement in 2010, Ottawa said it would introduce legislation to allow credit unions to incorporate federally, a move described by CUCC — which had been actively lobbying for this, as Alphonse Desjardins had 100 years ago — as "an historic announcement for the evolution of the credit union system in Canada." Credit unions operating under a federal charter would be able to expand beyond provincial borders. Amendments to the *Bank Act* were passed in July that make provisions for federal charters and the accompanying regulations are expected in late 2011.

Lobbying is one activity CUCC will continue to perform after it has completed its migration toward becoming a trade association, solely, and away from providing

The Co-operative Principles

The Seven International Co-operative Principles are guidelines by which co-operatives put their values into practice. Part of CUCM's mission is to promote these principles.

First principle: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Second principle: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Third principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Fourth principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Fifth principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

Sixth principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Seventh principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

wholesale financial services. This will affect its role in such things as group clearing and the National Liquidity Funding Agreement (NLFA) and mean that it would no longer be regulated as a financial institution.

Given the disparity in the size of centrals and credit unions, and the fact that it had never been used, CUCC has proposed that the NLFA — which was put in place in 1998 to ensure that centrals would have the capacity to fund a large decline in their provincial system liquidity — be cancelled in 2011. The move is dependent on the successful negotiation of bilateral agreements between centrals and on having plans for emergency lending assistance firmly in place with the Bank of Canada.

Cucc is currently the credit union system's group clearer — the facility through which provincial centrals exchange and settle payment items with other financial institutions — and sub-contracts the running of the majority of the shared clearing services to Central 1. With CUCC's transition out of financial services, an agreement in principle has been reached to move the group clearing function to Central 1 under a joint venture arrangement — to be governed 50% by Central 1 and 50% by the Prairie centrals — under which the centrals involved in payments processing will share the arrangement's infrastructure and representation costs to gain economies of scale.

Although there are myriad electronic and other payments available to them, Canadians still write cheques — a lot of them — and cheque processing remains one of CUCM's key services. In 2010, CUCM processed over 27 million deposit and clearing items, an average of over 100,000 items per business day. While significant, this number represents a three per cent decline in annual volume. In 2009, CUCM expanded its payments operations when it launched a fully automated service whereby statements are rendered, printed, inserted into envelopes along with cheque images and mailed to members, which saves credit unions the considerable time and effort of manually handling statements at their locations. Twenty-nine Manitoba credit unions, representing more than 450,000 statements per month, now use the service. In a further evolution, CUCM began offering electronic statements (eStatements) in 2010, which lets eroWORKS credit unions offer their members a greener statement option. Fourteen credit unions launched the service in 2010 and several others are scheduled for 2011.

One of those electronic payment options is the debit card. In 2010, Manitoba credit unions and others on the Co-operative Node successfully met the targets Interac had mandated in the mid-2000s: 90% chip compliance on deposit-taking ATMs and 65% on cards by December 31, 2010. Under the guidance of the node's Chip Migration Steering Committee, CUCM worked with other centrals, credit unions, CUCC and key suppliers — notably CUETS, Everlink and Celero — on the rollout of ATM and MEMBER CARD chip technology. Going forward, CUCM — with the support of the Co-operative Node Steering Committee — will assist credit unions with the completion of their implementations and the rollout of additional chip services.

The chip project brought into focus the need for a broader payments strategy for Canadian credit unions. Led by CUCM, a Prairie Region Card Strategy Committee is currently working with Central 1, which is in the process of evaluating credit card suppliers and options. Once Central 1 makes its decision, the committee will assess it and develop an action plan for the Prairie region. While currently focused on credit cards, the committee has also been given the task of monitoring new technology, legislation, and the supplier landscape — the ramifications for Interac, for example, of credit card companies moving into debit — and providing direction to credit unions on all card-related matters.

Security was the driver behind Interac's mandate to adopt chip technology. It is also front and centre on the Credit Union Master Bonding program, which CUCM assumed from CUDGC in May 2009. In 2010, activity on this file involved advocating on credit unions' behalf with CUMIS insurance, informing credit unions of programs available to help them mitigate fraud losses, providing fraud and risk training and webinars, and working with the authorities to facilitate their investigations of card fraud.

There was a great deal of other technology related activity at CUCM in 2010.

Cucm supported 13 separate credit union migrations from the cubs legacy banking system to the eroworks banking platform by providing test files and support for clearing functions, and by changing the routing of production transactions for each credit union. It also modified the settlement and ATM/POS reconciliation reporting as each credit union moved off the Manitoba switch. In a related activity, cucm continued to support the eroworks User Group, through which credit unions share best practices and seek specialty support and training.

Once Celero had completed its credit union schedule, it turned its attention to the Prairie centrals. Cucm converted to eroworks in November with very little disruption to credit unions. Cucm also converted to a new accounting system in 2010, GP Dynamics.

There was also more progress on the implementation of Opics — treasury management software cucm uses to assist in the management and investment of credit union liquidity. In 2010, the Liquidity Pool Investment Policy was translated into rules within Eagleye (a module that enables compliance monitoring and reporting within Opics), thereby ensuring that the system operates in compliance with policy. Testing of these rules will continue to ensure effective compliance monitoring. Preparations are also underway for a 2011 pilot of E-portal, an Opics module that will allow credit unions to book short-term investments and foreign exchange contracts online. And Riskmetrics, which will enhance Treasury's scenario simulations and 'what-if' analysis capability, is scheduled for implementation in 2011 as part of meeting osfi's e-18 guideline on stress testing.

In other developments in 2010, the Controller's department and Treasury Services introduced monthly reporting and quarterly distribution of financial margin to credit unions.

Recognizing that the ability to attract and retain younger employees and members is key to Manitoba credit unions' long-term viability, cucm's board in 2010 earmarked $60,000 to support the development, implementation and ongoing support of a provincial Young Leaders program. Cucm shares the system's concern — one of its strategic priorities has been to "develop strategies to attract and retain excellent people" — and has employed targeted communications and process improvements to address it. Namely, Human Resources held a session for all employees on the company's compensation philosophy and how compensation levels are set, followed by individual Total Compensation Statements that outline base compensation and other forms of compensation and benefits. Guidelines on additional time worked and taken were improved to provide greater consistency across cucm while maintaining the flexibility employees find attractive. Ongoing work on this priority also continued in the areas of succession planning, the annual employee satisfaction survey and cucm's Leadership Development Program.

In addition to managing human resources for cucm, the department's other clients include Celero and Everlink (the equivalent of 7.25 full time staff are devoted to those clients) and credit unions. Employee relations and general hr issue assistance are the services most frequently used by credit unions, followed by recruitment. In 2010, the hr consulting team worked with 23 small, medium and large credit unions and five other co-operative organizations on 60 projects. Compensation analysis, employee satisfaction surveys, hr policy reviews, and job evaluations made up the bulk of the projects, along with a few custom assignments. The department also designed a new program to add to its extensive suite of products: the Engagement Index is a 14-question online survey that quickly and cost effectively measures the key drivers of employee engagement.

In delivering on another priority, strengthening strategic processes, process improvements at cucm continued in 2010.

Following the review of the System Credit Committee (scc) that started in 2008 and continued into 2009, a number of major changes were implemented in 2010. These included: a new methodology for determining credit union discretionary lending limits (dlls), which resulted in substantial increases to dlls for 80% of Manitoba's credit unions; a restructuring of the various levels of scc, including the dissolution of Level iv and the introduction of a Special Purpose Loan category to replace it; and the introduction of Loan Transaction

For three weeks in December, a quarter of CUCM's employees took to downtown malls to raise money for the Salvation Army during its annual kettle campaign. The first person to donate during the first shift was a man, not rich by outward appearances, who took a roll of cash from his pocket, peeled off five twenties and said, "I've been waiting for you guys." The amount was not typical, of course, but his comment underscored the fact that the effort was worthwhile, necessary and appreciated.

Working with the Salvation Army capped a year in which CUCM employees donated, through fundraisers and payroll deduction, in excess of $50,000 to local, provincial and national charities. CUCM takes the lead for its own corporate giving from employees and largely matches their donations. The organizations employees chose to support spanned the spectrum of need: from the Spence Neighbourhood Association's Community Gardens Program to the CCA's Co-operative Development Fund; from the Andrews Street Family Centre to Siloam Mission. The level of staff involvement in supporting relief agencies, research organizations and community development agencies has skyrocketed in recent years: the $35,000 in staff contributions to the United Way alone, in 2010, were higher than total contributions just a few years ago. The result is that CUCM's own level of giving — the degree to which it upholds the seventh co-operative principle of Concern for Community — has also risen.

One could explain the increase by the fact that, at CUCM's quarterly staff meetings, employees get the chance to hear first-hand stories from people working on the front lines at Winnipeg agencies, and sometimes directly from the people they've helped. That's only part of it, though. The real story is that CUCM is blessed with caring, compassionate employees.

Charitiable Giving Recipients 2010

Alpha House	**$ 210**
ALS Society of Manitoba	**499**
Alzheimer's Society	**436**
Andrews Street Family Centre	**322**
Canadian Cancer Society	**1,163**
Canadian Diabetes Association	**833**
Canadian Liver Foundation	**$169**
Canadian Red Cross (Haiti Relief)	**$529**
Cancer Care Manitoba	**1,936**
Cerebral Palsy Association	**66**
Child Find Manitoba	**341**
Children's Wish Foundation	**1,272**
Co-operative Development Foundation	**1,143**
CURE Foundation	**459**
Firefighter's Burn Fund	**190**
Habitat for Humanity	**66**
Habitat for Humanity (Women Build)	**738**
Heart & Stroke Foundation	**2,168**
La Leche League	**307**
Rainbow Society	**631**
Salvation Army	**1,869**
Siloam Mission	**3,726**
Spence Neighbourhood Association	**400**
Spina Bifida & Hydrocephalus Association	**26**
United Way (General Fund)	**34,559**
Total Employee Giving	**$54,058**

Cooperation Among Co-operatives — 8,000 miles away

Rick Doerksen, a long-term credit union manager and CUCM consultant, was selected by the Canadian Co-operative Association as the Financial Management Specialist for a month-long credit union development project in rural Cambodia in early 2010. He worked with five credit unions and their central body, Cambodian Community Foundation Network (CCFiN), on matters ranging from governance to operations. In December he visited a second to time to assess CCFiN's progress over the course of the year and to help them build a business plan for 2011 to 2015.

CUCM consultant Rick Doerksen (back row, with glasses), with some of the Cambodian cooperators he worked with in 2010

Reviews to ensure SCC continues to meet its regulatory mandate. Process improvements will continue in 2011 with a view to further streamlining SCC's operations by enhancing the credit adjudication process with more effective use of technology to ensure maximum efficiency with the new DLL process.

Employing a variety of processes and gathering together numerous perspectives, Strategic Solutions supports CUCM's and credit unions' strategic planning activities. In assisting credit unions, the department uses annual historical benchmarking analysis to profile the performance of credit unions among their peers. In 2010, the department undertook a focus on the changing drivers for urban versus rural credit unions, worked on process redesign projects to help credit unions make the best use of their resources, and used customized indicators and competitive intelligence tracking to assist clients.

In 2010, the department's research area delivered over 30 member or employee satisfaction surveys for credit unions or their affiliates, boards or committees, the majority online with CUAdvisor. It also conducted CUCM's own service quality and employee satisfaction surveys, and the annual survey of Manitoba credit union members and bank customers. And, for the fourth year, it delivered the National Community Contribution Survey, the results of which are distributed to a variety of audiences, including government and the media, in CUCC's *Social Responsibility and Canada's Credit Unions* report. The department also conducted a study on consumer interest and knowledge of green financial products and services, which will provide credit unions with information on consumer interest in green mortgages, auto loans, renovation loans, microloans and other financial products (like credit cards or investments) that meet certain environmental criteria.

Agricultural and business consulting are also areas of expertise in Strategic Solutions. Department consultants continue to enhance the Credit Union Internal Audit service and conduct regular and specialized internal audits for client credit unions. In 2010, they also conducted a review of loan syndication/pooling options for credit unions and continued — on the National Agricultural Lenders' Committee of CUCC — to study the level of farm debt as it relates to lending. They also delivered advanced commercial and agricultural lending instruction through CUSOURCE and represented Manitoba credit unions at agricultural and commercial events.

Operational efficiency is a major focus. In 2010, the department continued to help credit unions develop capacity for reporting and analysis using ProfitStars tools and arranged seminars on asset and liability matching techniques, using a dynamic gap approach, to further enhance sustainability and capacity in the system. It also introduced an imaging system to credit unions that has the potential to deliver greater operational efficiency.

The department provides analysis of factors in the external environment that have the potential to impact credit unions — things such as agricultural and economic policy, crown agency lenders, economic and political partnerships, credit union collaboration models, consumer debt, the competition, and emerging technology and products in the financial services sector — much of which appears in the semiannual *Strategic Intelligence Report*.

Recognizing its wealth of expertise, organizations outside the credit union system routinely call on CUCM for advice and assistance. With a representative on CUCC's National Lenders and agricultural lending subcommittees, SCC continued to be closely involved in meetings and discussions concerning AgriInvest, Farm Credit Canada, BDC, EDC and other government programs. And, following up on its 2009 Co-op Curriculum work with Manitoba Agriculture, Food and Rural Initiatives (MAFRI), Strategic Solutions conducted a series of workshops with co-operative developers (Manitoba Community & Housing) and rural development specialists (Manitoba Agriculture) on commercial and agricultural business analysis. The materials CUCM developed are posted to the website of the Co-op Development Services Branch of Manitoba Community & Housing.

In 2010 Celero Solutions made significant strides in achieving its vision of becoming "the leading provider of technology solutions to the financial industry others aspire to be… people want to work for… and clients know they can rely upon."

Overall, in 2010 Celero achieved strong performance as measured against its balanced scorecard objectives, which span financial, customer, employee and innovation measures.

2010 highlights for Celero appear below.

Celero completed Project Meta, the largest IT project in Canadian credit union history (involving 106 credit unions, three centrals, and Concentra Financial). In Manitoba, and in all of Celero's conversions, every credit union opened for business as scheduled following their implementation weekends. The conversion process was continually improved, resulting in consistently high client satisfaction scores (7.8 out of 9) for the 38 conversions in 2010. The project met both its approved schedule and revised budget objectives, and involved an investment of over 1.7 million person-hours of effort.

Many credit unions have now had an opportunity to gain operating experience with the new banking system and the optimal adoption and usage of eroWORKS is an ongoing priority. In 2010, Celero facilitated more than 235 training sessions for more than 1,500 participants. Celero continued to develop its customer care, operations, hosting and other delivery processes for its eroWORKS customer base in 2010 and this priority will carry into 2011. Celero also made an investment in targeted "CARE" interventions with specific credit unions that have struggled with the change required to leverage the new banking system.

As part of the implementation, two of the three legacy banking systems, including the Manitoba CUBS system, progressed toward shut down and elimination of the associated costs. One legacy system will continue to be operated in Alberta beyond its forecast shut down date to accommodate a customer contract extension.

Celero achieved strong operational performance, exceeding its targets. Banking systems up-time of 99.95% availability was stellar and over 300 client projects were completed with 86% on time versus project schedules. Overall, early 2010 customer satisfaction survey results are encouraging, showing improvement in Celero's "Leader", "Enabler" and "Commercial" segments (i.e., larger clients), but with sub-optimal, lower results in the "Builder" and "Backbone" segments (i.e., mid and smaller sized credit unions).

The organization managed a substantial restructuring in two stages through 2010. The first stage of this restructuring was the realignment of all of its departments under a consolidated senior executive team. The second stage took place in conjunction with the wind-up of the Meta project. As a result, Celero has reduced its ongoing full-time and contractor personnel operating costs by approximately 10%.

Celero continued to move towards its goal of becoming a "top" employer, as employee satisfaction increased even during a time of substantive change. Major initiatives during the course of the year were the enhancement of the Celero web-based Employee Development Centre, Career Pathing workshops, a Reward and Recognition Program enhancement, and the creation of the Celero "Energy Team".

Celero's strategic evolution continued, with a greater focus on customer intimacy, growth and profitability. Celero's expertise and value is being recognized beyond its traditional realms and Celero intends to capitalize on this position. Expansion efforts will be tightly targeted to profitable assignments and new ventures to increase the financial performance of Celero, and direct financial return to its owner organizations. Celero will continue to evolve its array of products, services, partnerships and delivery models to adapt to the diverse needs of the credit union financial technology ecosystem.

Celero plays a key role as an integrator of financial and information technology for its clients. In 2010, Celero selectively tightened its relationships with IBM, Open Solutions, Microsoft and Central 1.

The 2010 Celero conference, held in Winnipeg in the spring of 2010, was attended by more than 200 customers and partners. It received high (4.4 out of 5.0) marks and nearly all participants indicated their intention to attend in 2011.

Celero's 2010 year-end financial results exceeded objectives in every major category. Its net income performance in 2010 was $6.8 million better than budget (before consolidating Everlink's results). Most importantly, Celero's direction and trending in terms of financial performance is consistent with its long term forecasts showing a return to profitability and strong revenue growth.

Celero's 2011 Key Priorities

- Aggressively roll out eroWORKS "DNA"
- Build the "New" Celero (3 tenets: Realize Growth Opportunities, Improve Service Delivery, Attain "Top" Employer)
- Continue to optimize eroWORKS adoption
- Determine our end state relationship with Open Solutions
- Advance our Customer Segmentation Strategy/ Business Model
- Further strengthen our partnerships with IBM and Central 1
- Develop a holistic approach to CUETS
- Effectively manage our financial performance.

— Report provided by Celero Solutions Inc.

EVERLINK

2010 was an outstanding year from the perspective of the progress Everlink made in evolving from a pure switching services company to a full payments services provider, but a less than strong year from the perspective of annual financial performance, due entirely to revenue shortfall. On the positive side, the company got a great deal done with a very tightly managed expense line that came in significantly under budget. Year over year (2010 vs. 2009), Everlink remains essentially cash neutral and maintains very strong cash reserves. A return of capital to the shareholders (FIS and Celero) was completed in December, 2010.

Everlink is actively engaged in diversification in both product and market spaces, seeking to expand and extend its reach into a limited available market that is heavily dominated by the Big Six Canadian banks. To that end, Everlink introduced several new products and enhancements to existing products in 2010, further strengthening prospects for 2011 and beyond.

Go-forward prospects are very positive. Firstly, Everlink has developed an excellent reputation in the payments marketspace over the last three years, which has allowed it to enter previously closed markets. Secondly, Everlink has the ability to leverage its owners to assist with accelerating product introduction, as well as with dramatically enhancing the sophistication of introduced functionality. The company's key performance indicators appear below.

In the area of business development, Everlink signed five new financial institutions to switching agreements and 13 new independent service organizations (ISOs) for debit point-of-sale (POS). The company has a very strong sales/revenue pipeline, with high confidence levels established for 2011 due to advance sales of new and existing product, as well as the deferral of sales from 2010 (as per client priorities and/or delayed new product in-market readiness). Also, the very strong demand for Everlink's professional services throughout 2010 is carrying forward into 2011.

In terms of products and services, Everlink successfully implemented EMV readiness, supporting the Co-operative and Everlink nodes, and assisted all clients (including CUCC, representing MSA credit unions) in migrating their ATMs to EMV, achieving the 90% Interac compliance requirement. Everlink successfully upgraded the POS system to EMV and introduced new functionality allowing POS merchants to close their settlement batches multiple times per day.

The company fulfilled the diversification objectives set for 2010 by introducing three new lines of business: Merchant Acquiring Program (in partnership with Chase Paymentech); Fraud Management (CAF Limit Override and Near-Real Time in partnership with FIS); and Instant Card Issuance (two complementary solutions that provide a combination of in-branch EMV card issuance and PIN change capabilities).

Everlink also made enhancements to the existing portfolio of products and services including: the tiered ATM Managed Services (AMS) portfolio, with emphasis on the Incident Management support solution; Electronic Journal; and several functional enhancements to the ISO POS solution set.

On the corporate side, Everlink advanced its brand, reputation and influence in the Canadian payments landscape, as evidenced by business development successes, client satisfaction improvements and business relationship opportunity solicitations. The organization attracted very strong payments industry professionals to the team, adding additional depth of expertise and breadth of experience. The company held a highly successful client conference (*Connections '10*) with overall satisfaction rating at 100% (0% "Very Dissatisfied" or "Dissatisfied"; 15% "Satisfied"; 85% "Very Satisfied"), with 96% reporting that their objectives for attending were met. Everlink also received strong feedback on its client satisfaction and loyalty survey, with year-over-year results exceeding targets, and made positive progress in its employee satisfaction and engagement survey.

As Everlink continues to evolve toward its mission of becoming a full payments solutions provider, its organizational focus and priorities have shifted toward introducing broader and more complex payments solutions. This has necessitated that the company attract team members with more expertise and experience specific to payments. To this end, Everlink completed a fairly significant organizational realignment with coincident executive leadership team and staff member changes in 2010.

Everlink's 2011 board-approved plan defines solid revenue growth (23% over 2010 actual), with expenses fairly well flat year over year (adjusted only for cost-of-goods-sold), resulting in solid net income/profit for the year. With respect to internal initiatives related to products and processes, the operative mandate for 2011 is "focus" — with emphasis on maturing existing products and processes, enhancing only where there is a client- or business case-driven directive.

Client satisfaction and loyalty as well as employee satisfaction and engagement targets reflect the solid progress achieved to date, with emphasis on sustaining areas of strength and improving specific areas where improvements will have the biggest impact.

— Report provided by Everlink Payment Services Inc.

PREVIOUS RECIPIENTS

2003

Bill Halpenny
ASTRA CREDIT UNION

Wasyl Topolnicky
CARPATHIA CREDIT UNION

Henry F. Wiebe
HEARTLAND CREDIT UNION

2004

Dave Hughes
CROCUS CREDIT UNION

George Sawatzky
NIVERVILLE CREDIT UNION

Irvin Wiebe
AGASSIZ CREDIT UNION

2005

Monsignor Arthur Benoit
CREDIT UNION PIONEER

Norwood Grove Study Group Number 1
CREDIT UNION PIONEERS

2006

Harold Foster
ARBORG CREDIT UNION

Stan Scarr
WINNIPEG POLICE CREDIT UNION

2007

John Gottfried
CASERA CREDIT UNION

2008

Barney Martin
CREDIT UNION CENTRAL OF MANITOBA

MANITOBA CREDIT UNIONS

Order of MERIT

THE MANITOBA CREDIT UNIONS ORDER OF MERIT AWARD *recognizes individuals who — whether as employees or elected officials — have demonstrated a significant commitment to Manitoba credit unions and the communities in which they operate. Each year, up to three individuals are selected to receive the award, based on their exemplary service to Manitoba credit unions, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the Seven International Co-operative Principles.*

In addition to the commemorative plaque they receive as part of the award, recipients or their representatives also have the honour of selecting a Manitoba secondary or post-secondary educational institution and faculty or program to receive a bursary to award to a student based on achievement, need or other criteria.

In 2005, the Credit Union Managers' Association of Manitoba matched CUCM's $500, bringing the total value of the bursary to $1,000 per student.

Also in that year, the Order of Merit selection committee created a special Pioneer category to allow for the recognition of nominees for whom sufficient records of their lifelong involvement in the wider system of credit unions did not exist, even though the historical importance of their work was evident.

2010 INDUCTEE

Marion Murphy CREDIT UNION PIONEER

Marion Murphy (nee Wroth) was nominated for a posthumous Order of Merit Award, in the Pioneer category, by the board of Credit Union Central of Manitoba.

Ms. Wroth was a strong leader of the Manitoba system during a period in which it was evolving, in terms of its provincial organization and finding its place in the wider system outside the province.

At the local level, she served as secretary and board member of Swift Canadian Employees Credit Union from 1946 to 1960. (Swift Employees, incorporated in 1945, amalgamated in 1979 with Cooperators Credit Union, which was later renamed Cambrian.) Her service to the wider system began with her election to the executive of the Greater Winnipeg (District 1) Credit Union Chapter, which she served for six years in the 1950's, two as president.

In 1953 she was elected as a board member of the Co-operative Credit Society of Manitoba and then, in 1956, as the inaugural First Vice-President of the Credit Union League of Manitoba, an organization she served until 1960. (The Manitoba League, to which all 192 credit unions and CCSM itself belonged, had the "primary responsibility for the general direction of all phases of the organized credit union movement in this province, including all matters related to general policies, promotion, organization, protection and representation at all levels," as stated in the Manitoba Credit Union League Articles of Incorporation).

From 1956 to 1960 she served as a director and resolutions committee member of the Madison-based Credit Union National Association — CUNA being the top tier for the Canadian leagues at the time. It was in Madison that she met Clarence Murphy, Managing Director of the California Credit Union League, whose proposal of marriage she accepted.

Mrs. Murphy appears to have withdrawn from active involvement in the credit union system after moving to California with her husband to raise a family.

The board of Credit Union Central of Manitoba has chosen to give the $1,000 bursary attached to this award to a student in the new Management of Co-operatives course in the University of Winnipeg's Department of Economics. The university will select the recipient.

This section of the annual report providing management's discussion and analysis (MD&A) of the consolidated results of Credit Union Central of Manitoba (CUCM) should be read in conjunction with the audited consolidated financial statements and notes as at and for the year ended December 31, 2010. The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). This MD&A is dated February 23, 2011 and provides comments regarding CUCM's core strategies, financial operating results, risk management and business outlook.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements. By their very nature, forward-looking statements require management to make assumptions that involve a number of factors, many of which are beyond management's control and which may cause actual results to differ from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, changes in general economic conditions including: interest rates, currency exchange rates and liquidity conditions; the effects of economic conditions on the Manitoba credit union system; legislative or regulatory developments; changes in accounting standards or policies; and CUCM's success in anticipating and managing the risks inherent in these factors. We caution readers that the foregoing list is not exhaustive. CUCM does not undertake to update any forward-looking statements contained in this annual report. Undue reliance should not be placed on forward-looking statements, as actual results may differ materially from expectations.

CUCM PROFILE

Credit Union Central of Manitoba (CUCM) is the trade association and service provider for the province's 41 autonomous credit unions and is governed by Manitoba's *Credit Unions and Caisses Populaires Act*. CUCM manages liquidity reserves, monitors credit granting procedures and provides trade services in areas such as corporate governance, government relations, representation and advocacy. CUCM also provides payment and settlement systems, banking, treasury, human resources, research, communications, marketing, planning, lending, product/service R&D, business consulting and legal services to credit unions. Manitoba credit unions jointly own CUCM and representatives from nine provincial districts sit on its board of directors. CUCM is financed through assessments and fee income derived through its operations.

ECONOMIC OUTLOOK

The Manitoba economy is expected to grow by 2.6% in real terms in 2011, slightly above the national growth rate. Some recovery is expected in the manufacturing sector as the outlook for buses and aircraft servicing improves. Some growth is expected in agricultural output. Mining and oil are expected to grow strongly this year and the service sectors, both private and public, are forecast to continue their steady growth. In short, growth will be unspectacular but broadly based.

On interest rates, 2010 saw the Bank of Canada raise the overnight rate three times, to 1%, where it is expected to remain until at least mid-year. The dollar is predicted to stay at or just above parity through 2011 and 2012.

Provincial employment is expected to rise by 1.3% (the Canadian average) and the unemployment rate will fall below 5%, making it the lowest in Canada. Consumer prices are expected to rise by 1.9% this year, well above last year's increase. Housing starts, which rebounded last year, will fall back to their 2008 level, while existing home sales are expected to fall this year by 5.3% and next year by 3.2%. Average home prices are expected to rise only modestly, by 0.9% and 1.4% this year and next. Retail sales will rise 4.9% this year, somewhat below last year's growth, while motor vehicle sales will grow, but only modestly.

The level of household debt in Canada reached $44,000 per person or 148% of disposable income in December 2010, putting it ahead of that of the U.S. for the first time since the late 1990s. In a move designed to put the brakes on consumer debt and give the Bank of Canada more scope to extend a pause in interest rate increases, the federal government has lowered the maximum amortization period for government-insured mortgages to 30 years from 35, and the maximum amount homeowners can borrow against the value of their homes to 85% from 90%. However, while debt levels have increased, the assets of households continue to be much higher (household net worth is now $178,600). As to which income levels owe debt and which own the assets, when Statistics Canada last made the calculation, in 2005, the bottom 40% of households by income had no net wealth at all, while the top 10% by income owned 58% of all wealth. Given that low and middle real wages have remained relatively stagnant in recent years, low and middle income households could experience significant personal debt problems if interest rates were to suddenly rise.

SYSTEM GROWTH

During 2010, credit union deposits and loans grew by 9.6% and 7.9% respectively, compared to 10.6% and 11.0% in 2009. Credit unions have noted increased competition from other financial institutions for residential mortgages dampening loan growth.

SYSTEM LIQUIDITY

The system's liquidity grew $406 million or 22.9% year-over-year, a direct result of credit unions' deposits growing faster than their loans. As a percentage of total credit union deposits, system liquidity ended the year at 13.4%, compared with 12.0% in 2009.

Credit unions have shortened the terms of their liquidity deposits at CUCM. Current account balances grew $159 million in the year (up 24.7%). Outstanding short-term liquidity deposits (original term of 13 months or less) grew $397 million (up 387.7%), while liquidity deposits booked for longer terms fell by $134 million (down 13.6%). This shift to shorter terms is due mainly to two reasons. First, the very low interest rates applicable to longer term deposits were unattractive to credit unions. This was particularly the case given that the Bank of Canada is expected to resume raising rates sometime in 2011. Credit unions are patiently maintaining most of their deposits in shorter terms as they await higher interest rates. Second, as low interest rates are causing credit union members to lock in longer-term mortgages and keep their deposit terms short, credit unions are maintaining more liquidity in shorter term deposits with CUCM in order to manage their interest rate risk.

CUCM's weighted average cost of funds fell from 3.82% in 2009 to 3.27% in 2010. This decline reflects the shorter deposit terms and the maturity of some deposits booked in previous years at higher returns, the proceeds of which are now earning today's lower returns.

The portfolio's supply of short-term liquidity appears more than adequate for 2011, especially given that system liquidity is expected to grow in the first half of the year. A recent survey of credit unions indicates that the trend in 2010 of growth in short term deposits with some offsetting decline in long term deposits will continue in 2011.

ASSET SWAPS

CUCM continues to manage a significant portfolio of asset swaps. This portfolio has contributed most of the financial margin earned and distributed on short-term deposits. During the year, management seized opportunities to transact additional asset swaps at very attractive returns. These were funded by growth in the short-term deposit base.

FINANCIAL MARGIN

The main components of financial margin are investment earnings attributed to credit union liquidity deposits and share capital. These two portfolios are managed separately and the earnings are distributed to credit unions in the form of financial margin distributions and dividends, respectively.

In late 2008 and in response to the financial crisis, the Bank of Canada introduced a Purchase and Resale Agreement (PRA) program, which in essence provided low-cost secured loans to eligible market participants for the purpose of helping to restore liquidity to stressed markets. CUCM participated in this program from inception until it ended in mid-2010, seizing the opportunity to reinvest the borrowed funds at an attractive spread. This participation contributed to higher financial margin and was distributed to credit unions in proportion to their short-term liquidity deposits held at CUCM during this time. Financial margin distribution on liquidity deposits is expected to decline in 2011 relative to 2010, primarily because the PRA program has ended.

CUCM also expects a decline in financial margin attributed to share capital in 2011. As investments in this portfolio mature, they are being reinvested in shorter-term investments to position us to redeploy these funds, either repatriating the funds or to support an amalgamation with SaskCentral. This results in lower dividend expectations for 2011.

LIQUIDITY RETURNS TO CREDIT UNIONS

The average cost of funds paid to credit unions was 66.8 bps on current accounts, 77.6 bps on short-term deposit balances and 338.0 bps on longer term deposit balances. 2010 financial margin distributions equated to an additional 64.2 bps on short-term liquidity (including both current accounts and short term deposits). The main components of this distribution were the asset swap earnings and participation in the Bank of Canada PRA program.

Credit unions earned an additional distribution of 19.4 bps on longer term deposits, reflecting the additional income earned from trading the bond investments matched to these deposits. Finally, the incremental income earned on loans to credit unions is distributed to credit unions in proportion to their excess liquidity deposits; in 2010 this equated to an additional 14.9 bps.

REGULATORY CHANGES

The latest regulation framework (Basel III) developed by the Basel Committee on Banking Supervision calls for increased minimum requirements for capital and changes to liquidity requirements to improve the banking sector's ability to absorb shocks arising from financial and economic stress. Basel III proposes that the new standards be phased in over the next several years. Using these recommendations as guidelines, the Office of the Superintendent of Financial Institutions (OSFI) will announce the specific guidelines that will apply to Canadian Schedule I banks. Allowing time for input from the Canadian financial community, OSFI expects to finalize this work by the end of 2011 or early 2012. It is expected that OSFI will then issue another set of guidelines to apply to the other financial institutions under its supervision, which includes CUCM. Those requirements will likely not be issued until 2012 and are expected to be somewhat less onerous given the institutions' smaller size and the fact that their operations are domestic, not international. While this is still some time away, the requirements may ultimately restrict CUCM's investment practices and change the liquidity requirements for credit unions.

STRESS TESTING

As part of managing/monitoring capital requirements for CUCM and liquidity needs for CUCM and the system, CUCM will be developing a full stress testing program. The implementation of the risk module within our treasury management system, Opics, will be a key feature in the program. CUCM is currently surveying credit unions in the system to project liquidity requirements. Further involvement from credit unions will be used as part of developing a full stress testing program.

IFRS

This is CUCM's last year for reporting its results under Canadian GAAP. Analysis of changes required for International Financial Reporting Standards (IFRS) has concluded that some changes are required; their magnitude is still being determined but they are not expected to have any material effect on CUCM's regulatory requirements.

CELERO / EVERLINK

In 2010, CUCM recorded a write-down of $769,300 representing CUCM's share of a write-down of $5 million of goodwill on Everlink's balance sheet. The results of Everlink's day-to-day operations are passed to each credit union based on its usage of Everlink's services. Since the initial goodwill was created by a business transaction that was initiated to increase Everlink's operations in Canada — outside of Manitoba and not related to Manitoba credit unions' usage of Everlink — it was decided that the write-down would not be passed on to credit unions as part of Everlink's day-to-day operations. The goodwill that remains on Everlink's balance sheet, $10.9 million, will be assessed annually for impairment and any further write-downs of goodwill will only occur if it is established that the amount carried on the balance sheet is impaired.

Everlink did make great strides in 2010 in evolving from a pure switching services company to a full payments services provider and remained essentially cash neutral while maintaining very strong cash reserves. In fact, a return of capital to the shareholders (FIS and Celero) was completed in December, 2010. Everlink is actively engaged in diversification in both product and market spaces, seeking to expand and extend its reach into a limited available market that is heavily dominated by the Big Six Canadian banks.

Overall, Celero's 2010 results exceeded its objectives in every major category. Most importantly, Celero's direction and trending in terms of financial performance is consistent with its long term forecasts that show a return to profitability and strong revenue growth. In 2011, Celero will focus on optimizing the adoption of eroWORKS and on its relationship with Open Solutions. In addition, Celero is looking to further strengthen its partnerships with IBM and Central 1.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2010

CREDIT UNION CENTRAL *of* MANITOBA

MANAGEMENT REPORT

February 23, 2011

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and
Chief Executive Officer

BARRIE DAVIDSON
Treasurer

PricewaterhouseCoopers LLP
Chartered Accountants
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Winnipeg, Manitoba
Canada R3B 0X6
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Facsimile +1 (204) 944 1020

February 23, 2011

Independent Auditors' Report

To the Members of
Credit Union Central of Manitoba

We have audited the accompanying consolidated financial statements of the **Credit Union Central of Manitoba** and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations, comprehensive income and reserves and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 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 consolidated financial statements.

PRICEWATERHOUSECOOPERS

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 consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Central of Manitoba and its subsidiary as at December 31, 2010 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Balance Sheet

as at December 31, 2010

in thousands of dollars	2010	2009
Assets		
Liquidity pool [note 2]	2,270,635	2,230,735
Derivative financial instruments	4,470	3,263
Intermediation pool [note 3]	129,365	157,434
Property and equipment [note 4]	21,066	21,375
Other assets [note 5]	7,586	13,179
	2,433,122	2,425,986
Liabilities		
Members' deposits	2,191,369	1,794,383
Obligations under repurchase agreements	—	385,461
Derivative financial instruments	41,000	47,879
Accounts payable	9,400	9,689
	2,241,769	2,237,412
Members' equity		
Share capital [note 6]	176,639	176,629
Reserves	14,714	11,945
	191,353	188,574
	2,433,122	2,425,986

Approved by the Board of Directors

DIRECTOR

DIRECTOR

Consolidated Statement of Operations, Comprehensive Income and Reserves

for the year ended December 31, 2010

in thousands of dollars	2010	2009
Financial revenue		
Liquidity pool	54,301	60,274
Intermediation pool	4,127	6,775
	58,428	67,049
Cost of funds	39,582	49,511
	18,846	17,538
Unrealized gains on instruments held for trading [note 12]	2,063	79,931
Financial margin	20,909	97,469
Share of Celero's loss [note 1c]	(4,101)	(4,553)
Rental income — net	239	235
Net operating recovery (expense) [note 8]	467	(219)
	(3,395)	(4,537)
Income before credit union patronage distribution	17,514	92,932
Credit union patronage distribution		
Financial margin distribution	9,750	6,611
Recovery of Celero's loss	(3,332)	(4,553)
	6,418	2,058
Income before income taxes	11,096	90,874
Income tax expense [note 9]	1,489	10,689
Net income and comprehensive income for the year	9,607	80,185
Reserves (deficit) — beginning of year	11,945	(61,666)
Dividends — net of related income tax savings [note 9]	(6,838)	(6,574)
Reserves — end of year	14,714	11,945

Consolidated Statement of Cash Flows

for the year ended December 31, 2010

in thousands of dollars	2010	2009
Cash provided by (used in)		
Operating activities		
Net income for the year	9,607	80,185
Items not affecting cash		
Unrealized gains on instruments held for trading	(2,063)	(79,931)
Gain on sale of intermediation pool asset	(963)	(2,414)
Depreciation of property and equipment	1,504	1,519
Future income taxes expense	135	9,910
	8,220	9,269
Net change in other receivables, prepaids, inventories and accounts payable	5,169	(8,570)
	13,389	699
Investing activities		
Increase in liquidity pool assets — net	(71,964)	(227,952)
Decrease in derivative financial instruments — net	9,093	13,180
Decrease in intermediation pool assets — net	29,034	37,915
Acquisition of property and equipment	(1,195)	(2,640)
	(35,032)	(179,497)
Financing activities		
Increase in members' deposits — net	406,459	21,631
Increase (decrease) in repurchase agreements	(385,461)	144,177
Increase in share capital [note 6]	10	22,000
Dividends — net of taxes	(6,838)	(6,574)
	14,170	181,234
Increase (decrease) in overdraft	(7,473)	2,436
Overdraft — beginning of year	(11,141)	(13,577)
Overdraft — end of year	(18,614)	(11,141)

in thousands of dollars	2010	2009
Supplementary cash flow information		
Income tax refund	—	158
Income tax paid	518	—

[1] Significant accounting policies

BASIS OF PRESENTATION

The consolidated financial statements of the Organization have been prepared in accordance with the *Co-operative Credit Associations Act*, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The significant accounting policies used in the preparation of the financial statements are summarized below.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Organization and its wholly owned-subsidiary, 317 Donald Inc., after the elimination of inter-company accounts and transactions.

RENTAL INCOME

The operations of 317 Donald Inc., as they relate to its external tenant, are disclosed separately in the statement of operations.

FINANCIAL INSTRUMENTS

As specified by OSFI, financial instruments, other than those required to be designated as held for trading, may be designated on a voluntary and irrevocable basis as held for trading provided that such designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; and
- allows for reliable measurement of the fair value of the financial instruments designated as held for trading.

The Organization has met the above requirements and has elected to designate certain of its financial instruments as held for trading as detailed below.

a) Liquidity pool

Investments designated as held for trading

These investments are recorded at their fair value initially using the trade date for recognizing transactions and thereafter based on quoted prices in an active market. Interest income earned, amortization of premiums and discounts, dividends received as well as realized gains and losses are included in financial revenue — liquidity pool using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations as unrealized gains (losses) on instruments held for trading.

Investments designated as held to maturity

These investments, which are matched to equity, are recorded at their amortized cost using the trade date for recognizing transactions. Interest income earned as well as dividends received are included in financial revenue — liquidity pool using the accrual basis of accounting. Accrued interest receivable is included with the corresponding principal balance. Other than temporary declines in market value are recognized as they occur in the determination of income. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Cash and cash equivalents

Cash and cash equivalents consists of cash, deposits and overdrafts with other financial institutions.

Transaction costs

All transaction costs are expensed as incurred.

b) Derivative financial instruments

Interest rate swap agreements

The Organization enters into interest rate swap agreements in order to manage its exposure to changes in interest rates.

Additionally, the Organization, in its role as a financial intermediary, enters into interest rate swap agreements and index-linked swap agreements with its member credit unions. Concurrently, the Organization enters into a counter agreement with a third party financial institution.

These agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values recognized as unrealized gains (losses) on instruments held for trading. Interest income on both the receiving leg and paying leg of the swap is included in financial revenue — liquidity pool using the accrual basis of accounting. The fair value of interest rate swap agreements is recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet.

Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates.

Additionally, the Organization, in its role as a financial intermediary, also enters into foreign exchange forward rate agreements with its member credit unions. Concurrently, the Organization enters into a counter agreement with a third party financial institution.

Foreign exchange forward agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values included in financial revenue — liquidity pool. The fair value of foreign exchange forward agreements is recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the host instrument). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and the combined contract is not designated or classified as held for trading. Embedded derivatives would be accounted for at fair value on the balance sheet and changes in fair value would be recorded in the statement of operations. The Organization determined that no embedded derivatives are required to be separated from the host instrument as at December 31, 2010.

c) Intermediation pool

Equity instruments are designated as available for sale and where a quoted market price in an active market is not available, are recorded at cost. All other instruments are designated as loans and receivables and are recorded at amortized cost using the effective interest method. Interest and dividend income earned is included in the financial revenue — intermediation pool using the accrual basis of accounting. Accrued interest or dividends receivable are included with the corresponding principal balance. Other than temporary declines in market value are recognized as they occur in the determination of income. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization.

Investment in Celero Solutions ("Celero")

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investee. The book value of the investment is adjusted for the share of net earnings (loss) and distributions received from or paid to the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary. The Organization assesses whether a financial asset is other-than-temporarily impaired by assessing whether there is a significant or prolonged decline in fair value and objective evidence of impairment exists such as financial difficulty, breach or default of contracts, probability of bankruptcy or other financial reorganization. The Organization accounts for increases in its ownership interests as step acquisitions. The Organization accounts for reductions in its ownership interest as dilution gains (losses).

Celero is an unincorporated operation that provides information technology services to the Organization, credit unions and other organizations. Pursuant to its agreement with the other investees, the Organization has a 31.4 % ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services.

The Organization's share of Celero's net earnings (loss) is based upon the net earnings (loss) of the business lines that it contributed to the operation and its ownership interest in the net earnings (loss) of Celero's remaining activities.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's net earnings. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting contribution and an amount recoverable from its member credit unions.

In 2010, Everlink recorded a write-down on goodwill on its balance sheet and a corresponding loss on its income statement. The Organization's portion of the loss attributable to the goodwill write-down was $769,300. It was decided by the Organization's Board of Directors that this loss would not be recovered from its member credit unions.

d) Members' deposits

Members' deposits are designated as held for trading and recorded at their fair value initially using the transaction date for recognizing transactions. Members' deposits are redeemable at the option of the member credit unions and are recorded at the amount payable on demand. The amount payable on demand is computed by discounting contractual cash flows as follows:

- terms less than 13 months, using the corresponding market yield on Canada Bankers' Acceptances; and
- terms greater than 13 months, using the corresponding market yield on Schedule I bank senior debt.

Interest expense is included in cost of funds using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized as unrealized gains (losses) on instruments held for trading.

e) Obligations under repurchase agreements

The Organization enters into short-term sales of securities under agreements to repurchase at predetermined prices and dates. The corresponding securities under these agreements continue to be recorded in Liquidity Pool assets. The obligations are designated as held for trading and are recorded at fair value initially and thereafter using the transaction date for recognizing transactions. These agreements are treated as collateralized borrowing transactions. Interest incurred on the obligation is reported in cost of funds using the accrual basis of accounting. As of December 31, 2010, the Organization was not party to any repurchase agreements.

INCOME TAXES

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities including equity accounted investments. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. The principal financial statement line items subject to measurement uncertainty are the carrying values of liquidity pool assets, members' deposits, future income taxes and property and equipment. Actual results could differ from such estimates.

DEPRECIATION

Depreciation is recorded annually by the Organization at rates and on bases determined to charge the cost of property and equipment over its estimated useful life using the straight-line method as follows:

Technology	3 to 10 years
Furniture and equipment	5 to 10 years
Leasehold improvements	remaining term of the lease
Building	50 years

Costs for property and equipment under development include direct development costs including overhead and interest costs, as applicable. Capitalization of costs ceases and depreciation commences when the asset is substantially complete and ready for use.

FUTURE CHANGES TO ACCOUNTING POLICIES

Embedded Prepayment Option — Amendments to: Financial Instruments — Recognition and Measurement, Section 3855

In June 2009, the CICA provided clarification to Section 3855 with respect to the accounting for embedded prepayment options. An embedded prepayment option in an interest-only or principal-only strip is closely related to the host contract, provided the host contract initially resulted from separating the right to receive contractual cash flows of a financial instrument, that, in and of itself, did not contain an embedded derivative; and does not contain any terms not present in the original host debt contract. This new standard will be applicable to the Organization on January 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2010. The Organization does not expect that adoption of this amendment will have a significant impact.

International Financial Reporting Standards (IFRS)

In February 2008, the CICA confirmed that all publicly accountable enterprises will be required to report under IFRS effective January 1, 2011. IFRS will replace Canadian GAAP. The Organization has developed an IFRS project plan to guide the Organization in meeting these new standards.

[2] Liquidity Pool

	2010		
in thousands of dollars	**Held for trading**	**Held to maturity**	**Total**
Debt securities			
Governments	7,706	—	7,706
Banks and trust companies	1,694,079	118,834	1,812,913
Corporate	455,754	12,876	468,630
	2,157,539	131,710	2,289,249
Overdraft	(18,614)	—	(18,614)
	2,138,925	131,710	2,270,635

	2009		
in thousands of dollars	**Held for trading**	**Held to maturity**	**Total**
Debt securities			
Governments	5,738	—	5,738
Banks and trust companies	1,534,526	124,168	1,658,694
Corporate	556,636	20,808	577,444
	2,096,900	144,976	2,241,876
Overdraft	(11,141)	—	(11,141)
	2,085,759	144,976	2,230,735

The fair value of debt securities held to maturity is $137,460,000 (2009 — $153,158,000).

Interest income recognized from debt securities held to maturity during the year was $6,797,000 (2009 — $6,761,000).

[3] Intermediation pool

in thousands of dollars	2010	2009
Loans and receivables		
Member loans		
Credit unions	106,182	134,187
Co-operatives	1,636	1,624
Mortgages	456	480
	108,274	136,291
Available for sale financial assets		
Shares		
Credit Union Central of Canada (CUCC)	5,534	5,521
Co-operatives	3,441	3,626
	8,975	9,147
Equity accounted investments		
Investment in Celero		
Loans receivable	10,401	10,731
Capital contribution	5,620	5,620
Accumulated share of deficiency	(3,905)	(4,355)
	12,116	11,996
	129,365	157,434

The fair value of member loans and mortgages approximate their carrying value as these investments are generally due on demand at their carrying amount.

The fair value of shares is not readily determinable as they represent investments in equity instruments that do not have quoted market prices in an active market and accordingly fair value cannot be measured reliably. No current market exists for such investments and the Organization intends to hold such financial assets indefinitely.

On December 31, 2009, the Organization disposed of its investment in The CUMIS Group Limited (CUMIS) for aggregate proceeds of $4,506,000. The Organization recorded a gain on sale of $2,414,000 which was recorded in revenue — intermediation pool in 2009. In 2010, the final sale price was determined, resulting in an additional gain of $963,000 that has been recorded in revenue — intermediation pool in the current year.

[4] Property and equipment

in thousands of dollars	Land	Building	Technology	Furniture and equipment	Leasehold improvements	Total
January 1, 2009						
Cost	1,379	13,817	7,330	4,658	353	27,537
Accumulated Depreciation	—	(541)	(4,148)	(2,407)	(187)	(7,283)
Net Book Value	1,379	13,276	3,182	2,251	166	20,254
Year ended December 31, 2009						
Opening Net Book Value	1,379	13,276	3,182	2,251	166	20,254
Additions	—	—	1,478	72	1,090	2,640
Transfers	—	—	—	(50)	50	—
Depreciation	—	(276)	(694)	(417)	(132)	(1,519)
Closing Net Book Value	1,379	13,000	3,966	1,856	1,174	21,375
Cost	1,379	13,817	8,808	4,680	1,493	30,177
Accumulated Depreciation	—	(817)	(4,842)	(2,824)	(319)	(8,802)
Net Book Value	1,379	13,000	3,966	1,856	1,174	21,375
Year ended December 31, 2010						
Opening Net Book Value	1,379	13,000	3,966	1,856	1,174	21,375
Additions	—	—	1,054	140	1	1,195
Depreciation	—	(276)	(739)	(341)	(148)	(1,504)
Closing Net Book Value	1,379	12,724	4,281	1,655	1,027	21,066
Cost	1,379	13,817	9,862	4,820	1,494	31,372
Accumulated Depreciation	—	(1,093)	(5,581)	(3,165)	(467)	(10,306)
Net Book Value	1,379	12,724	4,281	1,655	1,027	21,066

[5] Other assets

in thousands of dollars	2010	2009
Other receivables	6,676	12,216
Prepaid expenses and inventories	910	963
	7,586	13,179

[6] Share capital

AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued and redeemed at $5 each.

MEMBERSHIP

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

Every member of the Organization is required to own a minimum of two Class I shares.

RIGHTS AND PRIVILEGES

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

ISSUED AND OUTSTANDING

in thousands of dollars	2010	2009
Class I		
Manitoba credit unions	61,439	99,901
Co-operatives	1,228	1,228
Class II		
Manitoba credit unions	113,972	75,500
	176,639	176,629

During the year, $38,462,000 of Class I shares were exchanged for an equivalent amount of Class II shares. In addition, Nil (2009 — $22,000,000) of Class I shares and $10,000 (2009 — Nil) of Class II shares were issued for cash consideration.

[7] Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations and such services are measured at the exchange amount. During the year, the Organization's charges to Celero aggregated $2,376,000 (2009 — $2,212,000) and Celero's charges to the Organization aggregated $615,000 (2009 — $520,000). The net recovery from Celero of $1,761,000 (2009 — $1,692,000) is included as an offset to net operating expense (note 8).

Interest charges to Celero on loans receivable was $238,000 (2009 — $351,000) for the year.

Other receivables include $22,000 due from Celero (2009 — $64,000 due to Celero).

[8] Net operating recovery (expense)

in thousands of dollars	2010	2009
Recoveries from member credit unions		
Clearing fees and other financial charges	6,958	6,484
Basic assessment	5,003	4,787
Fee for service	2,894	2,633
Liquidity management assessment	1,812	1,840
Printing and supplies — net of cost of $1,205 (2009 — $1,182)	108	104
The Credit Union Deposit Guarantee Corporation fees	233	224
Patronage rebate — The Co-operators	—	13
	17,008	16,085
Operating expenses		
Personnel	8,878	8,616
National shared costs	1,943	1,882
Depreciation and leasing	1,558	1,540
Professional services	723	973
Settlement costs	1,071	1,038
Occupancy costs	969	660
Hardware and software maintenance	1,170	1,155
General	825	902
Co-operative democracy	505	517
Printing and supplies	141	184
Dues, grants and memberships	246	236
Travel	250	231
Insurance and bonding	205	191
Telephone and computer telecommunications	167	167
Postage and delivery	(10)	49
Capitalized costs — assets under development	(339)	(345)
Net recovery from Celero [note 7]	(1,761)	(1,692)
	16,541	16,304
Net operating recovery (expense)	467	(219)

[9] Income taxes

The Organization provides for income taxes at statutory rates as determined below:

shown as %	2010	2009
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10.0)
Additional deduction for credit unions	(17.0)	(17.0)
Net federal tax rate	11.0	11.0
Provincial tax rate	0.9	1.0
	11.9	12.0

The Organization's accounting income for tax purposes and related provision for income taxes are as follows:

in thousands of dollars	2010	2009
Income before income taxes	11,096	90,874
Non-taxable items		
Dividends	(231)	(836)
Non-taxable portion of capital gains	(482)	(1,214)
All other adjustments	905	(236)
Accounting income for tax purposes	11,288	88,588

in thousands of dollars	2010	2009
Expected provision for income taxes at statutory rates	1,346	10,631
Change in expected future tax rates	17	58
Other adjustments — net	126	—
Provision for income taxes on accounting income	1,489	10,689
Income tax savings on the payment of dividends	(932)	(896)
Total provision for income taxes	557	9,793

Dividends charged against reserves are net of the foregoing related income tax savings of $932,000 (2009 — $896,000).

The components of income taxes are as follows:

in thousands of dollars	2010	2009
Provision for (recovery of) current income taxes	422	(117)
Provision for future income taxes	135	9,910
Provision for income taxes	557	9,793

The significant components of future income taxes are as follows:

in thousands of dollars	2010	2009
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(582)	(301)
Unrealized gains on instruments held for trading	(10)	(19)
Provisions for expenditure currently not deductible for income tax purposes	224	141
Future income taxes	(368)	(179)

[10] Directors' expenses

Directors received remuneration of $284,600 (2009 — $251,700) and expense reimbursement of $48,000 (2009 — $71,400).

[11] Pension plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2010 were $357,000 (2009 — $348,200). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

[12] Unrealized gains (losses) on instruments held for trading

in thousands of dollars	2010	2009
Liquidity Pool Investments	(24,493)	70,065
Derivatives	17,081	28,975
Members' Deposits	9,475	(19,109)
Unrealized gains on instruments held for trading	2,063	79,931

By the end of 2009, financial markets had returned to more normal levels, resulting in unrealized losses recorded in 2007 and 2008 reversing in 2009. Unrealized gains and losses reverse over the period to maturity of the respective financial instruments; however, prior to maturity, these instruments are subject to fair value fluctuations due to changes in interest rate, foreign exchange and credit risks, as disclosed in note 15.

[13] Commitments

CUCM

During 2008, the Organization entered into a *Managed Services Agreement* with Misys International Banking Systems Inc in respect to the hosted Treasury Management system (Opics) under which the Organization committed to pay $5,443,000 USD in hosting service fees over the ten year contract. The Organization is also committed under the Treasury Management system to pay Celero hosting service fees currently estimated to be $38,400 per annum for the life of the contract, subject to re-negotiations.

The Organization also entered into a software maintenance agreement with Metavante effective January 1, 2009 in respect to the Statement Services Project under which the Organization committed to pay $373,500 USD over the five year contract.

The Organization has outstanding letters of credit with Scotiabank in the approximate amount of $754,000 at December 31, 2010. These letters of credit are entered into on behalf of member credit unions and are fully indemnified.

During 2010 the Organization entered into an agreement with Celero Solutions for the provision of eroWORKS banking services. The annual operating fee will vary yearly based on the Organization's proportionate share of the eroWORKS banking cost for all Celero eroWORKS banking system clients. For 2011, the annual operating fee is estimated to be approximately $194,000 based on an expected 0.9% share of total banking costs.

Commitments in each of the next five years and thereafter are as follows:

in thousands of dollars	
2011	805
2012	817
2013	830
2014	769
2015	783
Thereafter	2,372

CELERO

Celero has entered into a *Software License Agreement* in respect of a banking platform for Celero's credit union clients under which Celero is committed to pay $15,085,000 in software maintenance fees over the next five years. Celero has entered into agreements with credit unions to recover these costs through operating fees over the term of these agreements.

Pursuant to various addendums to the *Software License Agreement*, Celero is also committed to pay $7,445,000 in ancillary product maintenance and support fees over the next five years.

Celero has entered an agreement with IBM Global Technology Services to manage Celero's mainframe, mid-range and data centre support operations. Under the terms of the agreement, Celero is committed to pay $5,657,000 over the next five years.

Celero has additional obligations under various agreements for equipment, licensing, maintenance and professional fees.

The Organization is indirectly liable in proportion to its 31.4% ownership interest in Celero, for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next five years are as follows:

in thousands of dollars	Banking platform maintenance	Ancillary products maintenance	Data centre management	Premises leases	Other	Total
2011	947	468	850	243	481	2,989
2012	947	468	577	165	308	2,465
2013	947	468	306	165	272	2,158
2014	947	468	43	165	272	1,895
2015	947	468	—	165	14	1,594

EVERLINK

Celero has a 49% ownership interest in Everlink. In proportion to its 31.4% ownership interest in Celero, the Organization is indirectly liable for covenants and obligations under the following Everlink agreements.

Purchase of switching business

Under the terms of an *Asset Purchase Agreement*, Everlink acquired switching assets from third parties ("Vendor"). Everlink's principal remaining obligations under the purchase agreement are to continue to perform certain assumed obligations relating to customer and supplier contracts assigned to Everlink by the Vendor. These obligations expire in 2012.

Similar obligations exist under ancillary service agreements with the Vendor to provide switching services to the Vendor's customers, which expire in 2013.

Celero has provided a guarantee on these agreements in proportion to its ownership interest (49%) in Everlink. In the normal course of business, Everlink has met, and is expected to meet, all of its obligations under these agreements.

Financing arrangements

Everlink has entered into financing agreements, consisting of a line of credit to a maximum of $2,000,000 and an authorized overdraft facility to a maximum of $6,275,000 (2009 — $6,275,000) and $100,000 USD. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2010, there were no draws against the line of credit or the authorized overdraft facility.

[14] Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

[15] Risk management

The Organization's primary financial objective is to manage the liquidity of Manitoba's credit unions. A certain amount of financial risk is inherent. The Organization manages and mitigates risk through the diversification of its activities and development of risk management policies. The purpose of sound risk management is to provide reasonable assurance that incurred risks do not exceed acceptable thresholds and that risk-taking contributes to the creation of member value. For the Organization, this means striking a balance between return and risk.

In the normal course of business, the Organization is primarily exposed to the financial risks described below:

Credit risk — Risk of a financial loss if an obligor does not fully honour its contractual commitments to the Organization. Obligors may include issuers of securities, counterparties or borrowers;

Liquidity risk — Risk that the Organization will be unable to honour cash commitments without resorting to costly and untimely measures; and

Market risk —

Interest rate risk — Risk of a change in income resulting from changes in interest rates.
Foreign exchange risk — Risk of a change in income resulting from changes in foreign exchange rates.

RISK MANAGEMENT FRAMEWORK

The Organization's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, to monitor the risks, and adherence to limits by means of reliable and up-to-date information systems. The Organization follows a risk management framework that involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Organization regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board of Directors. The Board provides written principles for risk tolerance and overall risk management and management report to the Board on compliance with the risk management policies of the Organization. In addition, the Organization maintains an Internal Audit function which is partly responsible for review of risk management and the Organization's control environment.

Financial instruments comprise the vast majority of the Organization's assets and liabilities. The Organization accepts current and term deposits from member credit unions at both fixed and floating rates, as applicable, for various periods and seeks to earn an interest rate margin by investing these funds in securities and derivatives which provide both fixed and floating rates, as applicable.

The following table describes the significant financial instrument activities undertaken by the Organization, the exposure to risks associated with such activities and the objectives, policies and processes used in managing those risks.

Financial instrument activity	Risks	Risk management
Fixed rate debt securities — held for trading	Interest rate risk, credit risk and foreign exchange risk	Asset-liability matching, credit risk monitoring and use of derivative financial instruments
Fixed rate debt instruments matched to equity — held to maturity	Interest rate risk, credit risk and foreign exchange risk	Asset-liability matching and credit risk monitoring
Intermediation pool investments	Interest rate risk and credit risk	Asset-liability matching and credit risk monitoring
Members' deposits	Liquidity risk, interest rate risk and foreign exchange risk	Asset-liability matching and repurchase agreements

CREDIT RISK

Credit risk represents the most significant risk facing the Organization in the normal course of business. The Organization is exposed to credit risk primarily through its Liquidity and Intermediation Pool investments, including its derivative financial instruments. The financial assets recognized in the balance sheet represent the Organization's maximum exposure to credit risk as at the balance sheet date.

In managing credit risk, the Organization primarily relies on external rating agencies for Liquidity Pool investments. The Organization has quantified investment parameters which are monitored daily to ensure compliance with policy is maintained. The Organization does not invest in non-bank third party asset backed commercial paper. The Organization may only enter into financial instruments as follows:

Derivative financial instruments:

- Counterparties to derivative financial instruments are restricted to R-1 (Middle) and R-1 (High) rated Schedule I banks

Liquidity Pool investments:

- Generally, for investments maturing within 13 months, the minimum short term credit rating is R-1 (Low), or an equivalent minimum bond credit rating of A
- Generally, for investments maturing beyond 13 months and within 5 years, the minimum credit rating is AA (Low)

In addition to defining minimum credit ratings for all individual investments, aggregate limits exist to mitigate risks. The maximum composition of the Liquidity Pool investments is as follows:

Short-term credit rating	Bond credit rating	Maximum composition
R-1 (High)	AAA	100%
R-1 (Middle)	AA (Low)	80%
R-1 (Low)	A	20%

Furthermore to reduce credit risk, the Organization has diversification policies related to economic sectors and certain maximum individual security limits based on credit rating. The significant policies by economic sectors are as follows:

Sector	**Maximum composition**	**Bond credit rating**	**Short-term credit rating**
Government of Canada	100%	n/a	n/a
Provincial Governments	75%	AAA – BBB	R-1 (High) – R-2 (High)
Municipal Governments	20%	AAA – A	R-1 (High) – R-1 (Low)
Schedule I banks	80%	AAA – A	R-1 (High) – R-1 (Low)
Schedule II banks and investment broker dealers	10%	AAA – AA	R-1 (High) – R-1 (Middle)
Asset backed securities (ABS)	50%	AAA – A	R-1 (High) – R-1 (Low)
All other corporate	50%	AAA – A	R-1 (High) – R-1 (Low)
Total ABS and other corporate	85%	AAA – A	R-1 (High) – R-1 (Low)

The maximum investment term for each instrument must not exceed five years unless the investment is:

- specifically matched against a member deposit maturing beyond five years;
- matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate;
- retractable at the Organization's option within 5 years; or
- a callable bond issued by Schedule I banks which pays a fixed rate for a term not exceeding five years and converts to a floating rate instrument if not called at the end of that period.

Liquidity Pool credit rating and period of maturity are as follows:

in thousands of dollars	**2010**				
Credit rating	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
AAA/R-1 (High)	194,061	81,525	37,848	—	313,434
AA/R-1 (Middle)	256,691	241,583	1,225,495	92,672	1,816,441
A/R-1 (Low)	117,834	—	32,902	—	150,736
Not rated *	—	—	8,638	—	8,638
Total	568,586	323,108	1,304,883	92,672	2,289,249

in thousands of dollars	**2009**				
Credit rating	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
AAA/R-1 (High)	72,319	73,692	418,254	—	564,265
AA/R-1 (Middle)	497,920	7,674	1,126,274	12,640	1,644,508
A/R-1 (Low)	—	—	33,103	—	33,103
Total	570,239	81,366	1,577,631	12,640	2,241,876

* *In 2010 one ABS in which CUCM had invested ceased being rated by Dominion Bond Rating Service (DBRS) at the request of the issuer. Prior to the rating withdrawal, the ABS was rated AAA/R-1 (High). The security is being repaid in monthly instalments. Of the original investment, 23% remains outstanding at December 31, 2010. Based on the issuer's payment history, management believes the ABS will be substantially repaid by the end of 2011 and has elected to continue to hold the security.*

Intermediation Pool investments:

- Regardless of its credit rating, the Organization is committed to investing in CUCC as required.
- Investments in other co-operatives, Celero, and mortgages and loans require approval by the investment committee of the Board of Directors where credit risk is assessed.
- Loans and overdrafts to member credit unions are secured by a Global Loan agreement which specifies that the Organization holds a security interest in all book debts and accounts. In the event of default, the Organization is authorized to realize on all security and apply the proceeds therefrom to its amount receivable.

LIQUIDITY RISK

The Organization's primary objective is to manage and safeguard liquidity until it is needed by the member credit unions. This is done primarily by implementing a policy framework, approved by the Board of Directors, which ensures an adequate supply of maturing investments is maintained to fund potential system liquidity needs.

The contractual maturities of financial liabilities are as follows:

in thousands of dollars	2010					
	Current Accounts	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	832,021	406,670	397,651	540,229	13,618	2,190,189
Derivative financial instruments	10,033	280	—	23,634	6,544	40,491
Accounts payable	8,892	—	—	—	—	8,892
Contractual amount of liabilities	850,946	406,950	397,651	563,863	20,162	2,239,572
Fair value of liabilities	850,946	585,780	236,362	549,135	19,039	2,241,262

in thousands of dollars	2009					
	Current Accounts	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	728,359	251,201	126,518	703,964	—	1,810,042
Obligations under repurchase agreements	—	394,862	—	—	—	394,862
Derivative financial instruments	8,912	600	—	37,207	3,729	50,448
Accounts payable	9,208	—	—	—	—	9,208
Contractual amount of liabilities	746,479	646,663	126,518	741,171	3,729	2,264,560
Fair value of liabilities	746,479	648,362	116,404	722,421	3,265	2,236,931

The change in fair value of members' deposits relates to changes in market conditions and does not relate to changes in the Organization's credit risk.

INTEREST RATE RISK

Interest rate risk is the risk that a change in market interest rates will impact the Organization's financial margin as reported in the statement of operations. Accordingly, the Organization sets policy limits, approved by the Board of Directors, on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Organization's management.

By matching interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate re-pricing dates, management minimizes fluctuations of income during periods of changing interest rates. The Organization sets policy limits on the maximum amount of mismatch permitted. The mismatch is monitored by management on a notional basis. Periodically, the Organization may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Organization's financial instruments.

The Organization ensures that its Liquidity Pool investments are liquid and are appropriately matched to members' deposits as follows:

Term over 13 months

- Unmatched members' deposits and Liquidity Pool investments beyond 13 months are prohibited.

Term of 180 days to 13 months

- Members' deposits must be specifically matched to Liquidity Pool investments of a similar term, however unmatched financial instruments maturing in 270–394 days and 180–269 days shall not exceed 2% and 4%, respectively, of the Liquidity Pool investments.

Term of less than 180 days

- Members' deposits and Liquidity Pool investments maturing within 180 days must be matched within 15 days based on the weighted average term to maturity of the respective financial instruments.

The following summarized schedule shows the Organization's sensitivity to interest rate changes based on the notional value of assets and liabilities:

in thousands of dollars

Interest repricing period	Interest sensitive	Not interest sensitive	Derivative receiving	Derivative paying	Net asset/liability mis-match
0 to 6 months	(718,002)	(48,255)	787,696	(38,000)	(16,561)
6 to 12 months	113,098	(13,077)	—	(90,957)	9,064
1 to 2 years	368,556	(17,118)	—	(346,500)	4,938
2 to 3 years	199,009	(72,141)	—	(125,332)	1,536
3 to 4 years	21,239	—	—	(20,000)	1,239
4 to 5 years	117,561	(20,300)	—	(96,957)	304
Over 5 years	70,980	—	—	(71,500)	(520)
	172,441	(170,891)	787,696	(789,246)	—

At December 31, 2010 derivatives recorded included cross-currency swaps outstanding with a total notional value of $74.50 million swapped for US dollars with a notional value of $72.95 million ($73.26 million USD).

The weighted average effective return for interest-sensitive assets is 3.59% and the weighted average effective cost for interest-sensitive liabilities is 3.27%.

Investments and deposits may be sold or redeemed before maturity, however, no projections or adjustments have been made for potential sales or redemptions. Amounts that are not interest sensitive have been categorized in re-pricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mismatch for a given interest re-pricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given re-pricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The above-noted policy limits the mismatch in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The contracted terms of the swaps are specifically matched to specific terms of debt securities. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the member credit unions. The credit risk associated with the index-linked agreements is the responsibility of the Organization.

Sensitivity analysis is used to assess the change in value of the Organization's financial instruments against a range of incremental basis point changes in interest rates. Based on current differences between financial assets and financial liabilities as at December 31, 2010, the Organization estimates that an immediate and sustained 25 basis point increase in interest rates would decrease financial margin by $134,000 while an immediate and sustained 25 basis point decrease in interest rates would increase financial margin by $136,000.

FOREIGN EXCHANGE RISK

The Organization manages foreign exchange risk to minimize the risk of financial loss due to fluctuations in exchange rates. This is done primarily by implementing a policy framework, approved by the Board of Directors, which establishes maximum US dollar asset (liability) mismatches of $250,000 USD. The Organization enters into foreign exchange forward rate agreements with derivative counterparties to provide a financial intermediary role for member credit unions and to offset future contractual obligations of the Organization. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of US dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes. The net US dollar asset (liability) mismatch as of December 31, 2010 was ($134,000) USD.

As at December 31, 2010, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating $12,872,500 USD and to sell US dollars aggregating $12,655,200 USD, inclusive of transactions with member credit unions. The credit risk associated with these agreements is the responsibility of the Organization. The majority of these agreements come due within one month.

As at December 31, 2010, if the Canadian dollar had strengthened or weakened by 1% relative to the US dollar, with all other variables held constant, after tax net income for the year would have increased or decreased by a nominal amount, respectively.

FAIR VALUE MEASUREMENTS

CICA 3862 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Organization's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges and exchange traded derivatives like futures;
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the Organization's derivative contracts, debt instruments and members' deposits. The sources of input parameters like LIBOR yield curve or counterparty credit risk are derived from Bloomberg.
- Level 3 — Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Organization considers relevant and observable market prices in its valuations where possible.

in thousands of dollars	Level 1	Level 2	Level 3	Total
Financial assets — held for trading				
Governments	—	7,706	—	7,706
Banks and trust companies	—	1,694,079	—	1,694,079
Corporate	—	455,754	—	455,754
Overdraft	(18,614)	—	—	(18,614)
Derivatives	—	4,470	—	4,470
Total Assets	(18,614)	2,162,009	—	2,143,395
Financial liabilities — held for trading				
Members' deposits	—	2,191,369	—	2,191,369
Derivatives	—	41,000	—	41,000
Total Liabilities	—	2,232,369	—	2,232,369

[16] Capital management

Capital is managed in accordance with policies established by the Board of Directors and OSFI. Management regards a strong capital base as an integral component of the Organization's strategy. The Organization has a capital plan to provide a long-term forecast of capital requirements. The Organization also has a monthly capital adequacy assessment through which management performs an early financial statement close process to assess compliance with OSFI's imposed capital ratios. The Organization's stated objective for its borrowing multiple, the ratio of debt to regulatory capital, is a 16.5 : 1 ratio. Pursuant to OSFI regulations, the Organization is required to maintain a borrowing multiple of 20 : 1 or less. The Organization defines regulatory capital as the sum of its stated share capital and reserves reduced by assets specifically identified by OSFI's regulations. Specific reductions include future income tax assets and unrecognized losses on the Organization's held to maturity liquidity pool debt security portfolio.

All of the elements of capital are monitored throughout the year. The Organization has a clear and unencumbered process to access required capital from its member credit unions to attain certain capital ratios generally through a 15 day notification process or in unusual circumstances an emergency capital call and corresponding immediate reduction in members' deposits. The Organization also makes periodic dividend payments on members' equity, within the context of its overall capital management plan.

As of December 31, 2010, the Organization was in compliance with its required OSFI capital adequacy ratio. At December 31, 2010, the Organizations' borrowing multiple was 11.10 : 1 (2009 — 10.93 : 1). The Organization filed its annual OSFI return for the year ended December 31, 2010 on February 25, 2011.

[17] Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

DEDICATED TO SERVING MANITOBA

The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

Carpathia, Dauphin Plains, Flin Flon, Rosenort, Starbuck and Sunrise (Virden) credit unions all celebrated their 70th anniversaries in 2010.

Sanford Credit Union turned 60, and Amaranth and Entegra (Holy Spririt) both celebrated 50 years.

45 FORTY-FIVE YEARS

George Sawatzky *General Manager • Niverville Credit Union*

40 FORTY YEARS

Ernest Froese *Compliance Administrator / Purchase Officer • Access Credit Union*
Tina Unger *Custodian • Niverville Credit Union*

35 THIRTY-FIVE YEARS

Leona Falk *Financial Services Supervisor • Access Credit Union*
Allen Friesen *Loans Manager • Rosenort Credit Union*
Diane Graham *Business Analyst • Access Credit Union*
Shirley Isford *Loans Officer • Sunrise Credit Union*
Dennis Korzeniowski *Asst. Manager / Loans Manager • Grandview Credit Union*
Donna Jean McNish *Financial Services Officer • Sunrise Credit Union*
Bill Penner *Agricultural Account Manager • Access Credit Union*
Suzanne Richard *Commercial Loans Officer • Rosenort Credit Union*
Andy Seniuk *General Manager • Ethelbert Credit Union*

30 THIRTY YEARS

Debbie Clement *Credit Analyst I • Credit Union Central of Manitoba*
Ron Hedley *General Manager • Dauphin Plains Credit Union*
Douglas Kent *Manager of Wealth Services • Access Credit Union*
James Knockaert *VP of Lending • Sunrise Credit Union*
Don Lesage *Credit Analyst • Sunrise Credit Union*
Jeannie Phillips *Financial Service Representative • Access Credit Union*
Glenn Reimer *Commercial Account Manager • Access Credit Union*
Dee Dee St. Godard *Personal Account Manager • Access Credit Union*
Marina Sawatzky *Manager of Banking Systems • Access Credit Union*

25 TWENTY-FIVE YEARS

Janet Archer *Loans Clerk • Dauphin Plains Credit Union*
Cathy Ballantine *Account Manager • Access Credit Union*
Marlene Carr *Administrative Assistant • Niverville Credit Union*
Susan Chartier *Personal Account Manager • Access Credit Union*
Sheila Chinner *Member Service Representative • Sunrise Credit Union*
Taras Chwaluk *Director • Strathclair Credit Union*
Tanis Ducharme *Manager of Member Services • Access Credit Union*
Pam Krassman *Loans Administrator • Access Credit Union*
Edwin Meyer *President • Dauphin Plains Credit Union*
Ed Rempel *Personal Account Manager • Access Credit Union*
Dona Smart *Supervisor / Investment Advisor • Sunrise Credit Union*
Lori Smith *Assistant Manager Financial Services • Portage Credit Union*
Norma Titchkosky *Loans Administrative Supervisor • Access Credit Union*
Liz Yanick *Internal Auditor • Strathclair Credit Union*

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Credit Union Central of Manitoba Limited
Incorporated in 1950 by Statute of
the Province of Manitoba, Canada

CREDIT SOCIETY / AGENT BANK
Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS
PricewaterhouseCoopers LLP

SOLICITORS
PITBLADO LLP

CONSULTING ECONOMISTS
Dr. Michael Benarroch
Dr. John Loxley
Dr. Brian Oleson

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