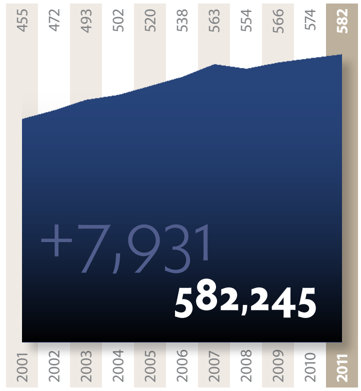
CREDIT UNIONS BUILD A BETTER WORLD

Manitoba's Credit Unions 75 years

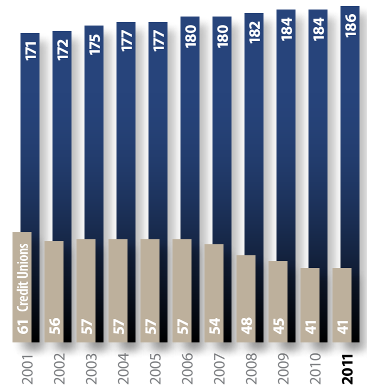
2012 International Year of Co-operatives

CREDIT UNION CENTRAL OF MANITOBA | 2011 ANNUAL REPORT

MEMBERSHIPS *(thousands)*



CREDIT UNIONS AND LOCATIONS



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

Manitoba credit unions welcomed nearly 8,000 new members in 2011. Membership at Winnipeg-based credit unions (249,538) rose by nearly two per cent, while membership outside Winnipeg (332,707) rose by one per cent. While the majority of credit union memberships are with credit unions based outside Winnipeg, there are now five credit unions with branches both inside and outside the provincial capital.

There were no amalgamations in the provincial credit union system in 2011, something which has not happened since 2006. There was, however, some branch activity. Outside Winnipeg, the number of branches ended 2011 where it began, at 125: Oak Bank Credit Union opened a new branch in Dugald and Westoba Credit Union closed in Mariapolis, as the town could no longer provide the amount of business required to sustain a branch, and transferred memberships to nearby Swan Lake. Meanwhile, Selkirk-based Sunova Credit Union opened two branches in Winnipeg.

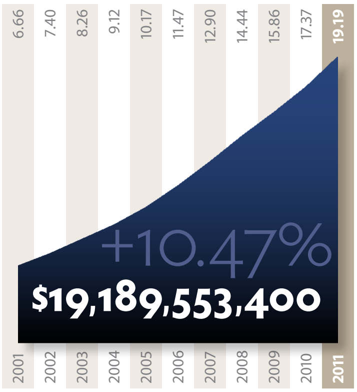
MANITOBA'S CREDIT UNIONS

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.

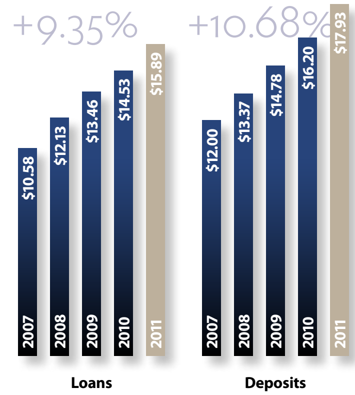
Altona
Amaranth
Arborg
Ashern
Austin
Baldur
Beausejour
Belmont
Benito
Binscarth
Birch River
Birds Hill
Birtle
Boissevain
Brandon
Bruxelles
Carberry
Carman
Cartwright
Cypress River
Dauphin
Deloraine
Dominion City
Dugald
Emerson
Erickson
Eriksdale
Ethelbert
Fisher Branch
Flin Flon
Gilbert Plains
Gillam
Gimli
Gladstone
Glenboro
Glenella
Grandview
Gretna
Grunthal

SYSTEM ASSETS *(billions of dollars)*



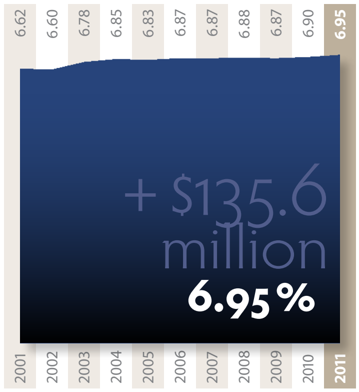
After growing by double digits every year from 2000 to 2008 and then dipping just below 10 per cent in 2009 and 2010, credit union asset growth, at 10.5%, reached back into double digits in 2011. Of total system assets, Winnipeg-based credit unions account for $8.4 billion (43.8%, up from 43.3% in 2010) and those based outside Winnipeg account for $10.8 billion (56.2%, down slightly from 56.7% in 2010).

LOANS AND DEPOSITS *(billions of dollars)*



Lending growth in 2011 rebounded somewhat from 2010, although it is still not at the levels seen through most of the first decade of the century. Lending was up by 9.35%, with growth led by commercial real estate — condominium and seniors' developments, in particular. With farmers in some areas being affected by flooding that started in the spring and carried on well into the summer, agricultural lending, while up from 2010, showed only modest growth in 2011. Deposit growth of 10.68% was higher than 2010 but, like loans, lower than it had been in recent years.

SYSTEM EQUITY *(as a percentage of assets)*



Credit union equity — comprising member share capital, surplus shares, preferred shares, contributed surplus and retained earnings — went from $1,021.8 million in 2010 to $1,141.5 million in 2011. Credit union equity as a percentage of assets now stands at 5.95%. Consolidated system equity — which factors in the equity held by CUCM ($4.2 million) and the Deposit Guarantee Corporation of Manitoba ($188.5 million) — grew by $135.6 million over the course of 2011, ending the year at $1,334.2 million ($1.33 billion). Total system equity as a percentage of assets now stands at 6.95%. This strong equity position is a key measurement of the strength and security of the Manitoba credit union system.

Hamiota
Hartney
Headingley
Holland
Inglis
Inwood
Kenton
Killarney
La Rivière
La Salle
Lac du Bonnet
Landmark
Laurier
Lowe Farm
MacGregor
Manitou
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

Manitoba's Credit Unions

DISTRICT 1

Steinbach credit union [3 branches]

DISTRICT 2

Assiniboine credit union [24]

DISTRICT 3

Cambrian credit union [11]

DISTRICT 4

Belgian-Alliance credit union [3]
Carpathia credit union [3]
Casera credit union [3]
Entegra credit union [3]
Me-Dian credit union [1]
North Winnipeg credit union [2]
Winnipeg Police credit union [1]

DISTRICT 5

Access credit union [12]
Crosstown Civic credit union [8]
Sunova credit union [12]

DISTRICT 6

Dauphin Plains credit union [3]
Ethelbert credit union [2]
Flin Flon credit union [1]
Grandview credit union [1]
Noventis credit union [8]
Prairie Mountain credit union [2]
Roblin credit union [2]
Rorketon & District credit union [1]
Swan Valley credit union [3]

DISTRICT 7

Amaranth credit union [1]
Austin credit union [5]
Beautiful Plains credit union [2]
Crocus credit union [2]
Erickson credit union [1]
Minnedosa credit union [1]
Portage credit union [3]
Sandy Lake credit union [1]
Strathclair credit union [4]

DISTRICT 8

Community credit union [3]
La Salle credit union [1]
Niverville credit union [2]
Oak Bank credit union [3]
Rosenort credit union [1]
Sanford credit union [2]
Starbuck credit union [2]

DISTRICT 9

Sunrise credit union [13]
Vanguard credit union [11]
Westoba credit union [20]

District structure and branch count as of December 31, 2011

Credit Union Central *of* Manitoba

ANNUAL REPORT 2011

"Given that the pressures that drove our merger discussions remain and are increasing, our remaining independent does not translate into maintaining the status quo."

RUSSELL FAST
Chairman, Board of Directors

Advances in technology, increased competition, more numerous and complex regulatory requirements and a very low interest rate environment continue to put pressure on credit unions to become as efficient as they can be, to continually reevaluate their operations, and to find ways to distinguish themselves in the very challenging financial services industry.

As their trade association and service provider, Credit Union Central of Manitoba (CUCM) must constantly evaluate how these pressures are affecting credit unions and be prepared to change how it does business in order to meet credit unions' changing needs.

Over the past several years, centrals in several provinces have been migrating to mergers and their attendant economies of scale to address the changing needs of their credit unions. In 2007 there were nine provincial centrals; today there are five.

CUCM itself has been actively engaged in finding a potential merger partner or partners over the past three years. Despite extensive discussions and the building of proposals, none of CUCM's efforts have thus far yielded an agreement that meets the needs of Manitoba credit unions.

CUCM's current plan is to remain an independent provincial central and to ensure it is functioning in a way that meets current and future credit union needs. Given that the pressures that drove our merger discussions remain and are increasing (fewer and larger credit unions with more complex and diverse business requirements, driven by the pressures on credit unions outlined above), our remaining independent does not translate into maintaining the status quo.

The review of CUCM's business model that was launched in mid-2011 includes an examination of what services should be provided to credit unions and how they should be delivered. A preliminary report is expected in the spring of 2012.

The changing credit union environment was also the reason behind a 2011 review of the system's governance model by the Democratic Control Review Committee and board governance subcommittee. Both groups reviewed proposals designed to ensure that the democratic structure remains adaptable, fair and effective for all member credit unions. The proposed changes address domination by one credit union within a multi-credit union district, thresholds and wait periods for single credit union district status and multi-director status for single credit unions, minimum district sizes and flexibility to address changes going forward.

The board also approved a proposal to establish a Governance, Policy & Planning Committee to replace the current Executive Committee. If bylaw changes on board committee structures are approved by CUCM members, the new committee will have very specific governance roles and accountabilities for organizational policy and planning. We also approved a set of guiding principles and processes for conducting nominations and appointments to affiliate organizations, changes that will help ensure effective representation and reporting on investee boards and let board members express their interest in serving in particular capacities.

It is fitting, in this United Nations International Year of Co-operatives, to talk about the co-operation that exists on CUCM's board. Each of us brings the unique perspectives and concerns of our districts to the table, where they are discussed and considered within the context of ensuring the best decisions are made for Credit Union Central of Manitoba and Manitoba credit unions. Decisions at the board level take into account the wide-ranging needs and cultures of all credit unions, small and large, urban and rural.

The board embodies the sixth international co-operative principle, Cooperation among Co-operatives, and I would like to thank my fellow board members for their dedication to that principle.

I would also like to acknowledge the management and staff at CUCM for the leadership and effort they provide in support of Manitoba credit unions.

RUSSELL FAST
Chairman, Board of Directors

Credit Union Central *of* Manitoba

VISION

OUR VISION FOR THE FUTURE IS THAT:

Manitoba Credit Unions see CUCM as their trusted and valued partner and a respected thought leader. They consider CUCM to be their first source of support, information and service.

Cucm is a source of creative solutions that contribute to credit union success and an outstanding promoter of credit union and co-operative values to Manitobans.

MISSION AND PURPOSE

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.

Every day, we

- *Help Manitoba credit unions meet their strategic and operational business needs,*
- *Represent and advocate for Manitoba credit unions, globally, nationally and locally,*
- *Promote co-operative principles and facilitate co-operative action.*

VALUES

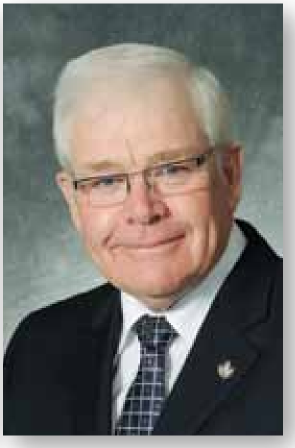
WE BELIEVE IN:

Respect for People	*All individuals are highly valued and are treated equitably.*
Integrity	*We are reliable in our word, honouring commitments & promises.*
Excellence	*We pursue the best possible outcomes in all that we do.*
Service	*We take pride in providing outstanding service to our members and other clients.*
Community	*We value community service and leadership as a contribution to healthy, vibrant communities.*
Innovation	*We innovate with products, services and approaches that help credit unions succeed.*
Collaboration	*We value: a consultative relationship with our members, a participative relationship among employees and a collaborative relationship with system partners (provincially, regionally and nationally).*

GUIDING PRINCIPLE

Learn from the past. Excel in the present. Shape the future.

BOARD OF DIRECTORS


(Left to right)

DISTRICT 1 · CHAIR
Russell Fast
Board meeting attendance: 13/13

DISTRICT 8 · FIRST VICE-CHAIR
Alexander (Sandy) Wallace
Board meeting attendance: 13/13

DISTRICT 9 · SECOND VICE-CHAIR
Wayne McLeod
Board meeting attendance: 12/13



DISTRICT 2
Margaret Day
Board meeting attendance: 13/13

DISTRICT 3
Rose Marie Couture
Board meeting attendance: 13/13

DISTRICT 4
Dave Abel
Board meeting attendance: 13/13



DISTRICT 5
Peter Enns
Board meeting attendance: 13/13

DISTRICT 6
Lee Gregory
Board meeting attendance: 13/13

DISTRICT 7
Don Farr
Board meeting attendance: 6/13

Board & Committee Activity

In addition to the work and issues described in the Message from the Chair, the board continued in 2011 to deal with the many reports, issues, committee tasks and other matters that regularly come before it. Some of the highlights appear here.

As part of the board's training and development plan, directors received presentations throughout the year on such topics as asset swaps, budgets and variance analysis, financial reporting and IFRS.

A request by the board to develop a process for monitoring the performance of CUCM's strategic investments led to the establishment of a Strategic Investment Management Committee. The committee, composed of CUCM management, conducts post-investment monitoring, evaluation and analysis of CUCM's strategic investments. The first benchmark report was received by the board in November.

As a result of discussions at its annual planning session, the board approved a peer evaluation questionnaire and process for implementation in February 2012. The purpose of the peer evaluation is to enhance the capacity of the board as a whole and individually to deliver value in the spirit of continuous improvement.

Work began to establish a board portal, for implementation in 2012, which will enhance the functioning of the board by improving access to information through a secure site.

Throughout 2011, the board approved changes to CUCM's Corporate Policy Manual and Human Resources Manual (as recommended by the Executive Committee), Loan Investment Policy (as recommended by Credit Committee, Level III) and Investment Policies (as recommended by the Investment Committee).

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
	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
	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***	2/2
	Peter Enns	2/2
	Lee Gregory	2/2
	Don Farr	0/2

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.

Credit Union Central *of* Manitoba

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.

(Left to right)

PRESIDENT *and* CHIEF EXECUTIVE OFFICER
Garth Manness

CORPORATE SECRETARY *and* DIVISION MANAGER, CORPORATE SERVICES
Dale Ward

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

DIRECTOR, STRATEGIC SOLUTIONS
Louise Smith

DIRECTOR, LENDING SERVICES
Bernard C. Carling

DIRECTOR, RISK MANAGEMENT
Dina Long

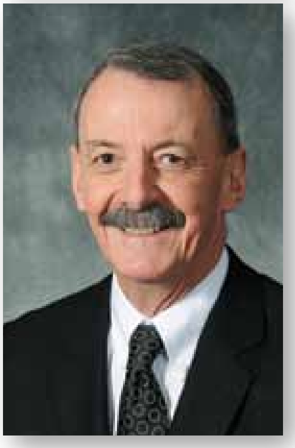
DIRECTOR, TREASURY SERVICES
Louise Thiessen

EXECUTIVE MANAGEMENT







“Manitobans proved once again in 2011 that what credit unions have to offer coincides with their financial and philosophical needs.”

GARTH MANNESS
President and Chief Executive Officer

The year in review

The level of competition in the financial services industry is high, the costs of technology and compliance are growing, low interest rates are squeezing margins and the global economy is still in recovery from events in the late 2000's. Despite these and other factors, Manitoba credit unions continued in 2011 to grow and play active roles in their communities, as lenders and leaders, while providing their members with the financial products and options they desire.

With healthy growth in assets (10.5%), loans (9.35%), deposits (10.68%), equity levels (now 5.95% of assets), membership (1.4%) and adding branches (2) as a result of demand, Manitobans proved once again in 2011 that what credit unions have to offer coincides with their financial and philosophical needs. These results are the latest chapter in the success story of the credit union system as we head into the 75th anniversary of financial co-operatives in Manitoba in 2012.

For the thousands of Manitobans directly involved as employees and directors, and for the more than one in three Manitobans who are members of credit unions, 2012 provides a wonderful opportunity to celebrate not only our 75-year history, but also — with the United Nations declaring 2012 the International Year of Co-operatives — the values and principles that make our financial institutions unique.

As an organization owned by and operated for the mutual benefit of Manitoba's 41 credit unions, Credit Union Central of Manitoba (CUCM) itself embodies those co-operative principles.

Through **democratic member control**, all credit unions, as member-owners of CUCM, have direct input into its activities. Cucm holds regular and ad hoc meetings that give credit unions the opportunity to interact with each other and hear from political, business and community leaders, economists, management experts and unique thinkers. These meetings — which touch on the principle of **education, training and information** — also provide an opportunity for CUCM to present its plans to its owners and get their immediate feedback.

Cucm, like its owners, is an **autonomous and independent** organization designed to meet the unique needs of its members. Full cost recovery and no cross-subsidization are among the principles under which we operate. All revenue that we generate from our operations — over and above operating costs — is returned to our member credit unions, thus fulfilling the principle of **member economic participation**.

The principle of **cooperation among co-operatives** is evident in every area of the organization.

It is evident in Celero Solutions and its subsidiary, Everlink Payment Services — a joint venture with the centrals of Alberta and Saskatchewan and Concentra Financial — through which we provide credit unions with state-of-the-art banking and payments systems functionality, security and expertise that allow them to provide the high degree of excellence in banking products and services their members expect from them. It is evident in national agreements, such as group clearing that allows for the exchange and settlement of payments by Canadian credit unions, and coordinated efforts on major projects like chip and card strategies. More generally, it is evident in how we share information with our peers at other centrals: through formal committees or informal working groups in areas such as lending, payments, compliance, governance, procedures, investments and human resources; or, frequently, by simply sharing procedures and best practices with our many contacts at peer organizations.

It is evident in Manitoba credit unions' support, through CUCM, of the Young Leaders, whose goal is to contribute to the system's success by providing their perspective on how credit unions can attract and meet the financial services needs of young Manitobans and the generations of members to follow.

Cucm represents the interests of Manitoba credit unions directly with provincial legislators and regulators. In 2011, we held meetings with key ministers, bureaucrats and others on taxation, insurance licensing and regulation, interprovincial trade agreements, the alignment of credit union legislation across jurisdictions, Crown lending agencies, and privacy concerns related to the reporting of elder abuse. Cucm works to provide context, identify developments and issues, and take action where required in order to ensure that Manitoba remains a marketplace in which credit unions can continue to thrive.

Cucm works with Credit Union Central of Canada (CUCC) on legislative issues at the federal level. Cucc monitors the potential impact on credit unions of proposed legislation and mobilizes system action. In November, CUCM and a number of Manitoba credit union representatives participated with peers from across the country in CUCC's Hike the Hill, an annual effort that combines lobbying and advocacy with education.

The lobbying, in which participants reminded federal legislators that their work in Ottawa does matter to Canadian credit unions, was successful: for example, the national system's concerns about Crown lenders — Farm Credit Canada and the Business Development Bank of Canada, which the system believes should be acting in a complementary fashion to other lenders in the marketplace — came up in Question Period the following week. As major lenders to small and medium sized enterprises (52% in Manitoba and 17% nationally), participants urged the federal government to make permanent the one-year hiring credit for small businesses introduced in the 2011 budget, and to index the small business lifetime capital gains exemption to the rate of inflation. Federal legislators also received the message that seven in 10 Canadians see credit unions as important players in their local, provincial and national economies.

Government relations and advocacy at the federal level will remain important areas of focus for CUCC as it continues its migration away from operational areas and toward a pure trade association. On that front, two major initiatives were completed in 2011. The National Liquidity Funding Agreement, which had been established to provide liquidity support to a central in an emergency situation, was replaced in 2011 by bilateral agreements between centrals, collectively known as the Inter Central Liquidity Agreement. And CUCC's function as the national system's group clearer was migrated to Central 1 in July 2011 under a joint venture agreement between Central 1 and the Prairie centrals. Under this agreement, credit unions continue to benefit from the economies of scale previously delivered by CUCC.

CUCM is an important provider of key services to Manitoba credit unions. Some highlights from 2011 appear below.

Banking & Payment Services redeveloped its existing online services and, in early 2012, will roll out the result — a new, single-site, web-based interface called BPS Online. This utility will provide a single point of access for core services, including cheque returns, AFT returns, cheque reinstate, member preferences and a new member research facility. With new provisions in the *Bills of Exchange Act* that allow electronic images to be used in place of original documents, CUCM now destroys cancelled member cheques after 90 days, a change that will result in significant long-term cost savings to the organization and its members. A redesign of CUCM's storage solutions was also completed in 2011, which improves efficiency and expands access to historical data.

As the result of deposit growth outpacing lending growth, system liquidity rose during the year. CUCM's liquidity portfolio had always been substantially invested in Canadian issuers, with only a very minor exposure to foreign-based issuers. Given the financial uncertainty, CUCM's Treasury Services department eliminated its exposure to foreign-based issuers through a combination of maturing investments and sales of longer-term securities. Treasury also continued to seize opportunities that arose from the crisis, investing some of the liquidity growth in asset swaps at very attractive levels, which should enable it to continue to pay credit unions above-market returns on their liquidity over the next several years.

Optimization of Opics, the treasury management system, continued in 2011 with implementation and/or pre-launch testing of modules related to compliance monitoring and reporting, stress testing, portfolio and investment analysis, and more complex analytics. Outflows of a project that looked at optimizing the workflow and structure related to Opics were a restructuring in the Controller's Department and the creation of a dedicated Treasury Risk & Compliance function. Controller's also undertook and completed the implementation of a new, company-wide accounting system in 2011 and oversaw the DNA upgrade to CUCM's eroWORKS banking system.

Human Resources is one of a number of departments that provides internal support to CUCM as well as fee-based consulting work to credit unions. Through the department, credit unions are able to access up-to-date data on executive and non-executive positions, benefits and working conditions in the financial services industry, and model HR policies enable credit unions to be sure they are compliant with all employment legislation. The department also provides HR services to Celero. In 2011, it renewed its agreement with that company out to 2016.

Central Credit Committee (CCC), whose name was changed from System Credit Committee in 2011 as the department took on responsibility for the adjudication of credit submissions from the Caisse Financial Group, is required by the *Credit Unions and Caisses Populaires Act* to review lending transactions in excess of a credit union's discretionary lending limit (DLL). In recent years, the function has undergone a number of process improvements that have increased credit unions' autonomy on credit decisions while continuing to safeguard system assets. Recognizing the benefit of knowledge and intelligence sharing within the financial co-operative system, CCC continued to be closely involved in national lenders and agricultural lending committee meetings and discussions concerning AgriInvest, Farm Credit Canada, BDC, EDC and other government programs.

Each credit union is aware of the local environment in which it operates, whether that environment includes one community or many. One of CUCM's roles is to provide credit unions with the wider view by monitoring and interpreting the provincial, national and international environments; in person and in strategic intelligence reports, CUCM provides credit unions with regular economic updates. Member and public opinion is another area we look at, by conducting research to find out what Manitobans think about credit unions and what they want from financial institutions. In an enhancement to its annual general market survey in 2011, Strategic Solutions probed beneath the answers by asking members what motivated them to join, and then stay with, their credit union.

CUCM is the master policy holder for Manitoba within the Credit Union Bonding Program. As the program leader on the management side, Strategic Solutions continued to work with CUCM's Bonding Committee, credit unions, CUCC, Central 1 and law enforcement to identify and inform credit unions of risk gaps related to the use of a variety of e-services, and supported credit unions to ensure their needs are being met by the system's debit card skimming detection and alert programs.

Card skimming is on the decline as chip cards and devices become more prevalent. For Manitoba credit unions, the migration to chip is virtually complete. One hundred per cent of Manitoba credit union ATMs were chip compliant in 2010 and 80% of Manitoba credit union debit cards were compliant at the end of 2011. CUCM expects that 100% of Manitoba debit cards will be compliant by June, well ahead of the Interac deadline of December 2012. The chip project brought into focus the need for a broader card strategy for Canadian credit unions. Led by CUCM, a Prairie Region Card Strategy Committee began work in late 2010 and will provide final reports and recommendations for credit unions to consider in 2012.

As we look forward to 2012, the environment for Manitoba credit unions remains positive. At CUCM, we are looking forward to the outcome of our business model review, and to the implementation of any changes that will further ensure that CUCM remains relevant to the needs of Manitoba credit unions.

I would like to thank all CUCM employees, each of whom played a part in helping Manitoba credit unions continue to be successful in 2011. I would also like to thank them for their generous support of community agencies and charities — the majority of which they initiated — that allowed CUCM to demonstrate an outstanding degree of **concern for community**.

I would also like to thank the board of directors for their continued leadership through another very successful year for Manitoba credit unions.

And a special thank-you to our member credit unions for the professional way they work with us and for the trust they have shown in us over many years.

GARTH MANNESS
President and Chief Executive Officer

Celero / Everlink

CUCM is a part owner, with other peer organizations in Canada, of a number of organizations that provide services to Manitoba credit unions. Two of these organizations are Celero Solutions and, through Celero, Everlink Payment Services.

Celero Solutions Inc. is an IT joint venture co-owned by the centrals of Manitoba, Saskatchewan and Alberta, and Concentra Financial. With 265 employees in Winnipeg, Regina, Saskatoon and Calgary, the company owns the core banking system used by the majority of Prairie credit unions and offers its customers a wide variety of IT services and products. Everlink Payment Services Inc. is a joint venture owned by Celero and U.S.-based Fidelity National Information Services Inc. (F.I.S.) that provides switching and electronic payments solutions to credit unions and other financial institutions on the Prairies and elsewhere in Canada.

Celero® Solutions

2011 was another extremely active year for Celero Solutions with a number of important milestones achieved both operationally and financially. Preliminary 2011 financial results suggest that Celero has now become a profitable venture one year ahead of plan (pre-Everlink). Strong financial performance allowed Celero to repay $13 million to its owner organizations.

Operationally Celero focused a substantial portion of its energies in 2011 on completing crucial upgrades for all of its banking clients to the new DNA banking platform. Other 2011 highlights for Celero included: customer service improvements; banking system uptime of 99.998, on par with or exceeding the top financial institutions globally; the introduction of a new monthly client newsletter; a third and very successful Celero client conference in Regina that attracted 153 delegates, 99% of whom said they'd recommend the event to others; the successful launch of new products including Digital Data Insights (DDI), 5 Module cView, Smartphone, Enhanced Data Storage, Mobile Web, AccountPlus, and Mobile Alerts; customized IT consulting; and training that included popular social media boot camps.

Looking forward to 2012, this will be an evolutionary year for Celero as it helps credit unions leverage the new eroWORKS DNA banking platform. Celero's focus will be dominated by expanded efforts to engage with and listen to customers, translate customer needs into improved service delivery, and improve delivery performance from strategic partners and suppliers. Specific initiatives include, but are not limited to: internally and externally implementing the Celero Customer Promise initiative; nurturing key partnerships, with particular emphasis on Open Solutions, IBM, Central 1 and Microsoft, with the aim of improving delivery of existing products and services and enhancing Celero's product and service offerings across the ever-evolving spectrum of financial technology; and expanding Celero's professional services offerings.

EVERLINK

2011 was another outstanding year from the perspective of client loyalty, employee engagement, operational performance, line-of-business diversification and solid financial performance. For the second year in a row, Everlink completed a return of capital to its shareholders but, despite solid growth in all key indicators, realized a write-down to its goodwill asset of $2.825 million. The write-down is the result of lower revenue associated with the significant repricing of the credit union business, as well as the loss of much of the B.C. credit union business coincident with the execution of the credit union MSA in 2009, combined with slower than expected growth in other markets and lines of business throughout 2010 and 2011.

The company identifies four cornerstones for success: Operational Performance (which continues to be among the very best in the industry — availability was an outstanding 99.9998% in 2011 and 99.9989% over the last three years); Strength (a focused determination to operate its business in a responsible and highly disciplined manner, the result of which in 2011 was the renewal of all business as it matured while adding new clients and maintaining strong financial results: in short, Everlink is a growing, profitable, cash-flow positive company with no debt that maintains significant cash-on-hand); Innovation (delivering what customers say they want, such as ATM-managed services, fraud management solutions, instant card-issuance, a refreshed merchant acquiring program, and Smart ATM, contactless and Interac flash card products); Client-Centricity (enhancing relationships with all of its clients by working with them to help them better serve their customers).

Everlink anticipates that 2012 will see a continuation of the growth objective and intends to further expand upon the 31 net new client relationships that have been secured over the past few years. The 2012 board-approved plan projects a 13.7% revenue growth (relative to 2011 actual revenue), with expenses fairly well flat year-over-year (adjusted only for cost-of-goods-sold), resulting in an improved net income/profit for the year.

Concern for Community

The co-operative principle of Concern for Community is deeply woven into the fabric of CUCM's corporate identity.

Management takes an active role by exposing employees, on a regular basis, to groups dedicated to helping Winnipeg's abused, abusive and abusing; to helping society's physically, mentally, socially and economically disadvantaged. Management supports the All Charities Campaign committee and CUCM Staff Club, and makes time available for employees to get into the community on United Way Days of Caring and for other volunteer opportunities. In 2011, employees pitched in at Winnipeg Harvest and Siloam Mission, and manned the kettles for the Salvation Army during the holiday season.

While management takes an active role, employees own the leadership. They plan and promote the All Charities campaign and appoint ambassadors to ensure the message inherent in Concern for Community reaches all employees. The 2011 campaign, "Get in the Game: Drive to $53,000" was built around the excitement of the return of the Winnipeg Jets to the NHL and featured a week-long street hockey tournament. Employees combined to beat the goal by a substantial margin. Staff Club maintains the momentum and enthusiasm by planning and hosting fundraiser luncheons and other events throughout the year.

A number of activities in 2011 focused on our special partner, Siloam Mission. CUCM staff helped prepare and serve lunch for a couple of hundred at the mission on Princess Street, participated in two Siloam radiothons, and sponsored an art contest that truly delivered win-win results (see story on page 21).

In 2011, CUCM matched employee donations to Alpha House, ALS Society of Manitoba, Alzheimer's Society, Canadian Cancer Society, Canadian Diabetes Association, Canadian Liver Foundation, Cancer Care Manitoba, Cerebral Palsy Association, Children's Wish Foundation, Co-op Development Fund, CURE Foundation, Firefighter's Burn Fund, Grace Hospital, Habitat for Humanity (Women Build), Heart & Stroke Foundation, KidSport Manitoba, Kidney Foundation of Canada, La Leche League, Rainbow Society, Salvation Army, Save Our Seine, Siloam Mission, Spina Bifida and Hydrocephalus Association, United Way of Winnipeg and Winnipeg Harvest.

Donations & Matching

*By matching employee donations to local, national and international organizations, CUCM's own donations are directly driven by the giving of employees. Together, CUCM and staff have donated **over $470,000** to charitable causes in the last five years.*

	2007	2008	2009	2010	2011
Employee participation	34%	67%	68%	77%	84%
United Way/All Charities campaign	$28,903	$38,053	$47,696	$49,921	$59,715
Staff Club and other fundraising	$1,466	$4,231	$3,632	$4,137	$3,716
Employee giving	**$30,369**	**$42,284**	**$51,328**	**$54,058**	**$63,431**
Matched by CUCM (after expenses)	**$28,869**	**$39,984**	**$49,003**	**$51,179**	**$61,237**
Total	**$59,238**	**$82,268**	**$100,331**	**$105,237**	**$124,668**

Thirty artists took part in the CUCM-sponsored art contest at Siloam Mission — some of them accomplished painters, others who were picking up a brush for the first time. The winning painting, by Manuel C, is shown at right.

From artists who call the streets home

Something beautiful

When CUCM was considering ideas for a unique gift to present to credit unions to commemorate anniversaries, branch openings and other milestones, Siloam Mission's Expressive Arts program immediately came to mind. The program gives people who are downtrodden and pushed to the peripheries of society the opportunity to show the world that, despite their difficult circumstances, they have something beautiful to offer.

In CUCM's contest, 30 artists recreated a photo that had been featured in Printing & Supply's Real Manitoba 2011 Calendar. Prints of the winning painting now grace the walls of credit unions throughout the province.

Follow the International Year of Co-operatives activities and events:

facebook.com/**ManitobaCreditUnions**
twitter.com/**ManitobaCU**

2012 International Year of Co-operatives

Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.

— Ban Ki-moon, United Nations Secretary-General

THE STATEMENT OF CO-OPERATIVE IDENTITY, which includes the definition, values and principles, was adopted at the 1995 General Assembly of the International Co-operative Alliance, held in Manchester on the occasion of the Alliance's Centenary.

DEFINITION

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

VALUES

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operatives members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The statement of identity is not advertising or sloganeering: it is a firmly held belief, an anchor that guides the actions of co-operative organizations throughout the world. As an organization owned by and operated for the mutual benefit of Manitoba's 41 credit unions, Credit Union Central of Manitoba (CUCM) exemplifies these principles.

In mid-2011, CUCM struck a committee of credit union marketing and management representatives to help formulate plans to celebrate the International Year and the 75th anniversary of financial co-operatives in Manitoba. The campaign is using traditional publicity (posters, articles and press releases) and social media (Facebook, Twitter and YouTube) to achieve its goal: "Within the context of the United Nations International Year of Cooperatives, educate Manitobans about the facts of the financial co-operative model and, through storytelling in a variety of forms from many perspectives, celebrate the benefits of credit unions and their collective contribution to the fabric of life in Manitoba over the past 75 years."

The slogan for Manitoba credit unions, which appears in giant letters on the side of CUCM that faces the MTS Centre, is a variation on the IYC theme, "Co-operative Enterprises Build a Better World."

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.

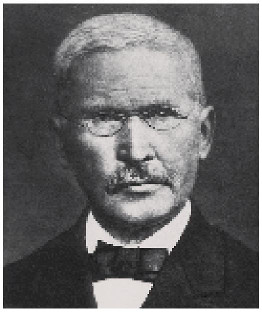
Manitoba's Credit Unions 75 years

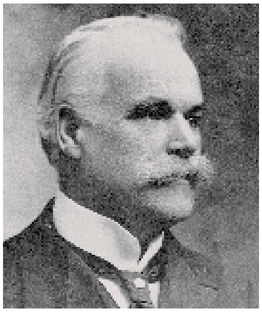
75 Years of Financial Co-operatives

THE BEGINNING

The principles upon which modern co-operatives are based were first articulated in 1844 by the Rochdale Society of Equitable Pioneers, whose members obtained wholesome, unadulterated food at reasonable prices: "One member, one vote; equality of the sexes amongst membership; only pure provisions should be sold, in full weight and measure; and the allocation of a 'divi' (dividend) to members."

Credit unions' roots go back nearly as far. As mayor of a number of villages in the German province of Westerwald, Friedrich W. Raiffeisen had been helping the impoverished fight for survival by, among other things, buying food in bulk and selling it to them with no mark-up. During the harsh winter of 1854, as farmers and townspeople were losing their homes and livestock to loan sharks, he grasped the connection between poverty and dependency and came up with the three-S formula of self-help, self-governance and self-responsibility and, in 1862, founded the banking co-operative that would become the prototype of the modern credit union.





Raiffeisen (top), Desjardins and Bracken

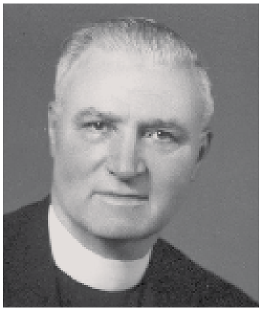
CANADA

Alphonse Desjardins was a parliamentary reporter in 1897 when, during debate on a bill to control loansharking, he heard of a Québec farmer forced to repay $5,000 on a $150 loan. Outraged, he resolved to do something. He corresponded with European credit union leaders, organized locally and, in 1900, founded North America's first financial co-operative in Lévis, Québec. He would go on to help establish dozens more in Québec, the Maritimes and the U.S. Northeast and, with Boston merchant Edward Filene and others, organized a conference in Massachusetts in 1908 from which emerged the first general credit union act on the continent.

MANITOBA

Credit unions took root in Manitoba when little else could — during the Great Depression. Between the activities of credit union and political leaders in Eastern Canada and the U.S. (FDR had signed the Federal Credit Union Act into law in 1934, authorizing the establishment of federally chartered credit unions in all U.S. states "to make more available to people of small means credit for provident purposes through a national system of co-operative credit"), the movement caught the attention of Manitoba Premier John Bracken. In 1937, Manitoba passed an amendment to the *Companies Act* that established the first legislation governing credit unions.

In 1937, Father Arthur Benoit acquired the charter for the province's first financial co-operative, Caisse Populaire de St. Malo. A visit to the caisse after Sunday morning mass became a weekly ritual for members. The clergy, along with labour, was a major force in the development of many caisses and credit unions, but they did not all follow the same path. Father Moses Coady, leader of the "Antigonish Movement" out of St. Francis-Xavier University (St. F-X) in Nova Scotia, produced a weekly radio program telling listeners that "credit unions would help you lift yourself by your own bootstraps," and sent workbooks to any who could afford the printing and postage. The broadcast reached Winnipeg on Chicago station WCFL, "the Voice of Labor." Among its listeners were members of Norwood Grove Study Group #1, who formed Norwood Credit Union in 1938. Four others followed that same year, Commercial Telegraphers, Lowe Farm, The Pool and St. Alphonsus. Altona, Neepawa, The Pas, Belgian Sacred Hearts, Burns Employees and Crestview were chartered in 1939.



Benoit (top) and Coady

Bracken did more than pass the legislation. He also looked for people who could spread the word about credit unions. In 1938, he wrote to the Archbishop of St. Boniface, Arthur Béliveau, to ask if Father Benoit might be available "as an occasional lecturer on credit unions." The archbishop replied that Father Benoit could not be spared from his parish duties, but informed the premier, in a postscript, that eight parishes were currently in the process of establishing caisses. He sent agriculture minister Douglas Campbell on a fact-finding trip to St. F-X, then invited Coady himself to Manitoba. Coady sent A.B. MacDonald, who delivered a series of lectures throughout the province. A January 1939 *Winnipeg Tribune* article reported that "the Antigonish idea has caught in the Maritimes and is sweeping westward. In its wake it is leaving a new philosophical mentality which (strictly off the official record) is viewed with alarm by stalwarts of the old-line parties." In 1939, Bracken appointed a Commissioner of Credit Unions, who reported through the Department of Agriculture and whose job included their promotion. At the end of the decade, Manitoba's 11 credit unions had 2,406 members and $49,900 in assets.

MID-CENTURY

Once established, credit unions flourished. About 90 credit unions received charters in the 1940s and by the end of the decade they had roughly 40,000 members and $5-million in assets. Organization was the byword of the '50s. In 1950, the government established a Co-operative Services branch. It also passed an Act to incorporate Co-operative Credit Society of Manitoba (CCSM), which brought the Credit Union Federation of Manitoba (promotion, education, group buying, field services, etc.) and the Manitoba Central Credit Union (financing/liquidity pooling) together under one organization. (Credit unions would form and re-form various organizations over the coming decades, but eventually reconsolidate under CCSM in 1979.) In 1952, CCSM's 33 caisse members left to form la Caisse Centrale de St. Boniface, which would later become la Fédération des caisses populaires du Manitoba. In 1953, the umbrella organization for provincial centrals, CCSC (Canadian Central), was incorporated.

Credit unions were growing in number, but most remained very small. In 1953, for example, 68% of credit unions had less than $50,000 and 250 members, and 83% had either part-time or volunteer management: the rest had a single employee. They had $11 million in combined assets, but only a handful were larger than $200,000. And most were closed-bond based on occupation, employer, culture or religion: of those with community (open) bonds, all but six were outside Winnipeg. Half of Winnipeg bonds were religious, while the other half — including Winnipeg Housewives, Commercial Telegraphers and Iron Workers — were occupational.

The number of credit unions peaked at around 220 in 1963, after which resource pooling through amalgamations began to drive the number down. Member and asset growth continued to grow, though, from $42 million and 93,000 members in 1960 to $169 million and 184,000 members by 1969.

The first version of the credit union movement's trademark 'Little Man Under the Umbrella' (top) was copyrighted in 1936. He was given a shave in the 50s, and took on a stylized new look for the 60s. Today's familiar Hands & Globe design was registered in 1966.

FACING ADVERSITY

Ten years later, credit unions would be victims of their own success. Having kept pace with the heady growth of assets, long-term loans financed by short-term deposits squeezed margins and decimated profits when the prime rate climbed and climbed in the late 1970s and early '80s, eventually hitting 21.75% in September 1981. The system had very little equity to fall back on when the crisis hit. The provincial government put a loan guarantee in place which, it turned out, the system never called on. Instead, credit unions, CCSM and the regulator, the Stabilization Fund (Deposit Guarantee Corporation) put programs in place to build equity, accelerate amalgamations and strengthen controls.

FACING THE FUTURE FROM A POSITION OF STRENGTH

Credit unions emerged from the early-'80s much stronger than they were going in. Growth resumed its earlier momentum and, while the number of credit unions fell with amalgamations — with most opening their bonds along the way — the number of branches continued to increase, as did the number of communities in which a credit union was the only financial institution available to businesses and consumers.

By the end of the century, a scant 60 years after their founding, credit unions led all financial institutions in deposits and consumer and small business lending in Manitoba.

Manitoba credit unions ended the first year of the new millennium with 14.7% annual asset growth, the first year of an eight-year run of double-digit asset growth, with 2009 and 2010 less than half a percent off that mark. Entering the 75th year of financial co-operatives in Manitoba, provincial credit unions have nearly $20 billion in assets and close to 600,000 members.

Sources:
Manitoba Archives, GR 43, G53-23, Files on Credit Unions from the Office of Premier John Bracken, *1939.*
Manitoba Department of Agriculture Annual Reports, 1950–1970

Manitoba Credit Union Charters since 1937

1938 Norwood · Commercial Telegraphers · Lowe Farm · The Pool · St. Alphonsus **1939** Altona · Belgian Sacred Hearts/Belgian · Burns Employees · Crestview · Neepawa/**Beautiful Plains** · The Pas & District **1940** ABBE · Alpha/**Flin Flon** · **Carpathia** · **Dauphin Plains** · Pioneer · **Rosenort** · Spruce Creek · **Starbuck** · Virden · Winkler **1941** Boissevain · Haywood · Kelloe · **Roblin** · Solsgirth · **Steinbach** · Tummel · Wassewa · Winnipeg Terminal **1942** Cartwright · Grunthal · Harlington · Hartney · Hazelridge · Holy Cross/Heritage · Morranville-Wicklow/**Grandview** · Plum Coulee · Reinland · Ste. Rose du Lac · Woodworth · Woody Valley **1943** Adanac · **Assiniboine** · Brandon United · Civic Employees · Durban · Graysville · Gretna · Halbstadt · Kleefeld · **North Winnipeg** · Padolier Ladies · South Winnipeg · Treherne & District/Tiger Hills **1944** Airline · Blumenfeld · Crosstown · East Minitonas · Grassmere-Tecumseh/Stonewall/South Interlake/**Sunova** · Isabella · Minto · Morris/Valley · New Bothwell · Poplar Heights · Portage la Prairie/**Portage** · Randolph · Sifton · **Strathclair** **1945** Carman · Fisher Branch · Horndean · Manitoba Co-op Wholesale Employees · Meadows · Poplarfield · St. Eugene · Swift Canadian Employees (St. Boniface) **1946** Birtle · Charleswood/St. Charles · Cross Lake · Elm Creek · Foxwarren · Gateway · **Minnedosa** · Morden · **Oak Bank** · St. John's · Winnipeg Postal District Employees **1947** **Ethelbert** · Federal Employees of Manitoba · Keystone **1948** 20th Century · Manitoba Power Commission (MPC) · Meat Packers · **Niverville** · Rockwood · Winnipeg Housewives **1949** Aircrafters · Arnes · **Austin** · Board of Grain Commission & Employees · Buffalo · Canada Packers Employees · Canadian Brotherhood of Railway Trainmen & Other Workers · Canadian Co-op Implements (CCIL) · Christie Brown Employees · Decibel · Gimli · Hnausa · Iron Workers · MacDonald Brothers Aircraft Employees · Unicity · Winnipeg City Police/**Winnipeg Police** **1950** Amatese Brotherhood · Dnipro · Fort Rouge Coachyards · Manitoba Bridge & Engineering Works Employees · Manitoba Teachers · Railwaymen's · **Sanford** · Sprague · Steel Workers · Teamsters/United · Vera · Winnipeg Brewery Workers **1951** Dnister · Fort Rouge Railway Employees · The Foundry · La Rivière · Public Press Employees · Safeway Winnipeg Employees · St. Michael's · Transcona/**Casera** · United Grain Growers (Winnipeg) Employees · West End **1952** Arborg · Beausejour & District · Brandon Terminal/**Crocus** · Brown & Rutherford · Canada Bread Employees · **Erickson** · Gypsum Lime · Holy Ghost · Imperial · Louise · McCreary · Netherlands · Ogilvie's Employees · **Sandy Lake** · Westeel-Rosco Employees **1953** A.O.V.W. Fort Rouge Lodge No. 8 · Alpha Manufacturing Employees · Alpha Omega Alumni · Bricklayers Masons Tile & Marble Setters and Terrazo Workers · CAE Employees · Parbed · Polish Combatants · Rhombus · Service · Steppe · **Swan Valley** **1954** Civilian Employees · Lac du Bonnet · Oakburn · Rossburn · Souris · St. Ignatius · Stovel-Advocate Employees · Turtle Mountain · Winnipeg South Community **1955** Brandon Mental Hospital Employees · CBC Winnipeg Employees · Fleming Pedlar Coldstream · Frances · Fur & Leather · Ideal Brass Employees · Kane Equipment · Moore Business Forms Winnipeg Employees · Pine Falls · Redwood · St. Augustine's · Stonewall · Strotco Employees · Systems Equipment Employees · Western Bakeries Employees · Weston Bakeries (Winnipeg) Employees **1956** Brandon General Hospital Employees · Dauphin Terminal · Eagles · Food Processors (Manco) · Fort Whyte · Immaculate Conception Parish · Imperial Refinery · Projectionist · Select · Winnipegosis **1957** Building Products (Winnipeg) Employees · Campus · Canada Iron Employees · Canada Wire & Telecabler Employees · Carberry · Christ the King Parish · Dauphin Parochial · General Bakeries · Glenella & District · Manitoba Sugar Employees · Motor Coach Industries Employees · North Star Refinery Employees · Parkland · Pine River · Rivers · Riverton · South Area · Union Stockyards Employees **1958** Astra · Brandon Sun Employees · Co-operators/**Cambrian** · Flour Workers · Glenboro · Hamiota · Inglis & District · International Harvester Employees · Our Lady of Victory Memorial Parish · Paper Products Employees · Plumas · Progress · Standard Aero Engines Employees · WWW (Willson Stationery, Winnipeg Envelopes, Westcraft) Employees **1959** Aspen · Cornish · Gladstone · Holy Eucharist Parish · Holy Family Parish · Norwood-St. Boniface Branch 43 Canadian Legion · Rolling Mill Employees · Southport · Winnipeg Municipal Hospital Employees **1960** A & M Employees · A.F. & D.C. · **Amaranth** · Bendick Employees · Brandon Civil Servants · Churchill · Cypress River · Holy Spirit/**Entegra** · Gilbert Plains · Paulin Chambers Employees · Retail Clerks Local 832 · Vita & District · Warren · Winnipeg General Hospital Employees **1961** Birch River & District · Brandon Branch Canadian Legion · Dawson Bay Consumers · Dufferin · Lizard Point · O.K. (O'Keefe's Old Vienna Brewery Employees) · **Rorketon & District** · The Services · St. Gerard Parish · St. Hedwig · Thompson · Western Manitoba Teachers **1962** Beausejour · Continental Can Employees · Hy-Line · Killarney · Prince Edward Legion · Teulon · The Pas & District **1963** Brandon Consumers/**Westoba** · Hebrew · Holy Rosary Italian · Italia · Moosehorn · Polish Sokol · Sherwilco · St. John/Canadian Foresters · St. Mary's · St. Vital Legion · Winakwa **1964** Dominion City · Hansa · Russell · St. James Community · Winnipeg St. Joseph's Parish **1965** Emerson & District **1966** Benito · Jefferson/St. Jospeh · Melita & District · Pinawa **1967** Swan Lake **1968** Shell St. Boniface **1971** Landmark **1972** Eriksdale · Unida **1973** Midland · Selkirk Industrial Employees **1974** Leaf Rapids · Lynn Lake **1975** Filipino · Starlink **1978** Keewatin · Métis/**Me-Dian** **1980** The Professional Financial Savings · Selkirk & District **1981** Progress-Vera **1987** **Vanguard** **1994** Communicators **2001** Agassiz · Alliance **2002** **Community** · Heartland · Vantis **2003** Ste. Rose/**Prairie Mountain** **2004** **La Salle** **2007** **Crosstown Civic** **2008** **Belgian-Alliance** · **Sunrise** **2009** **Access** **2010** **Noventis**

List based on available information. Does not include chartered credit unions that did not operate.
Slash (/) indicates name change. Mergers with new names shown separately.
*Current credit unions are shown in **bold face**.*

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

Norwood Grove Study Group Number 1
CREDIT UNION PIONEERS

Monsignor Arthur Benoit
CREDIT UNION PIONEER

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

2010

Marion Murphy
CREDIT UNION PIONEER

MANITOBA CREDIT UNIONS

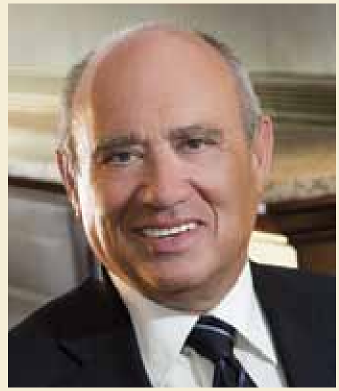
Order of MERIT

The Manitoba Credit Unions Order of Merit Award recognizes individuals who, by their exemplary service, their leadership and their commitment to the Seven International Co-operative Principles, have demonstrated a significant commitment to Manitoba credit unions and the communities in which they operate.

As part of the award, recipients have the honour of selecting a Manitoba secondary or post-secondary educational institution and faculty or program to receive a $1,000 bursary to award to a student based on achievement, need or other criteria.

The Order of Merit Selection Committee comprises two director representatives chosen by Executive Forum and two management representatives selected by CUMAM, which shares the cost of the bursaries with CUCM.

Wayne McLeod WESTOBA CREDIT UNION

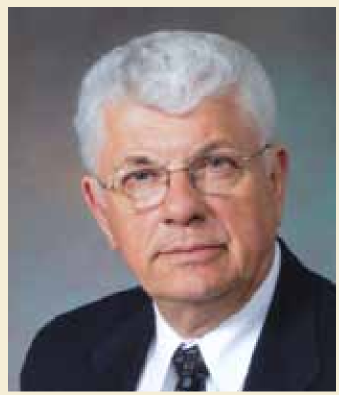


Wayne McLeod was nominated for the Order of Merit award by the board of directors of Westoba Credit Union. Hired as the GM of Brandon Consumers Credit Union in 1970 (renamed Westoba in 1972), Wayne has overseen its expansion from a single branch to the sixth largest credit union in Manitoba with over $1 billion in assets, forty thousand members and 20 branches throughout Manitoba. Among its many achievements under Wayne's leadership, Westoba was the first financial institution outside Winnipeg to install an ATM and the first Manitoba credit union to connect to Interac. Wayne started serving the wider system in the early '70s and never looked back. He is a past chair of the Credit Union Stabilization Fund (DGCM) and CUMAM, Manitoba's current representative on The Co-operators and Concentra boards and, since 1984, district director on CUCM's board. Wayne's work with the MCA and CCA resulted in his being appointed chair of the Co-operative Development Foundation, an organization about which he is passionate.

Wayne's work outside the system includes service as board member or past board member of the Brandon Regional Health Authority, the Brandon Economic Development Board and the Clear Lake Cottage Owners Association, to name a few. He also served as an alderman on Brandon City Council for nine years.

In addition to being named a Manitoba Distinguished Co-operator in 2011, Wayne was Brandon's Businessperson of the Year for 2002, in recognition of his community leadership, and in 2003 he won a CMHA Best Boss Award for Outstanding Promotion of Mental Health in the Workplace. Every single employee of Westoba Credit Union signed the nomination.

Mel Klassen ACCESS CREDIT UNION



Mel Klassen was nominated for the Order of Merit Award by Access Credit Union. An educator by training and vocation, he retired in 1995 after a 38-year career teaching and serving as principal at schools in the Altona area.

Mel served on the board of Altona Credit Union from 1974 to 2002, for 16 of those 28 years as president. He served for six years on CUCM's board, for part of his term as vice-president. In addition to his board and committee work on CUCM's board, he sat on the MCA's Distinguished Co-operator Selection Committee and served as president of the Southern Manitoba Chapter of Credit Unions. He also served as a system appointee on the board of the Deposit Guarantee Corporation of Manitoba from 2001 to December 2011, as chair of its bonding committee from 2003 to 2009.

In addition to his work for Altona Credit Union and the Manitoba credit union system, Mel has been mayor of Altona since 2002, having first been elected to council in 1998. He has served or continues to serve on the boards of the Association of Manitoba Municipalities, the Manitoba Employees' Pension Fund, and the provincial government's Green Manitoba Eco Solutions Advisory Board. In 1980, in an initiative close to his heart, he helped establish Altona Minor Ball, which exists to this day and is considered one of the leading baseball programs in Manitoba.

Mel has also served in a variety of capacities on numerous committees related to his church and various other community based organizations and initiatives.

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, 2011. The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 24, 2012 and provides comments regarding CUCM's core strategies, financial operating results, risk management and business outlook.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This 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

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, procurement, product/service research and development, 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

This is CUCM's first year reporting its results under IFRS. In 2010, the Canadian Institute of Chartered Accounts (CICA) Handbook and Generally Accepted Accounting Principles (GAAP) were revised to incorporate IFRS as issued by the International Accounting Standards Board, with publicly accountable enterprises applying these standards effective January 1, 2011. The change created increased disclosure notes and a change in the presentation of our financial results in our Consolidated Statement of Operations and Comprehensive Income attributable to our derivative portfolio. Note 19 in the financial statements provides a summary of the impact of the transition to IFRS and a reconciliation of opening balances for 2010.

ECONOMIC OUTLOOK

The current consensus of forecasters is that U.S. growth might reach 2.1% in 2012. The consumer price index as a whole is expected to rise less in 2012 compared to 2011 and to be well below 3% per annum, while core inflation will be under 2%. The U.S. recovery is, however, fragile, and could be jeopardized by a deeper Euro crisis or a Middle East oil crisis.

The Canadian economy is expected to mirror the performance of the U.S. economy but at a slightly lower level in terms of GDP, due mainly to a strengthening dollar curtailing export growth and encouraging imports.

The level of household debt in Canada is growing relative to income, which has the potential to pose problems in the future. Real disposable income has been growing very slowly in recent months and this, too, may encourage further excessive borrowing. There appears to be no immediate danger, though, as personal bankruptcies are at their lowest level since 1995 and interest rates are expected to remain low in the immediate future.

The expectation is that Manitoba will perform slightly better than Canada as a whole in 2012 and 2013 in terms of GDP growth, although growth will be lower than in 2011. Some recovery is expected in the agricultural sector, and manufacturing, mining and oil production are expected to grow. With the opening of CentrePort Canada (a tri-modal transportation hub based around James Richardson International Airport), transportation and warehousing, already above the national average, are also expected to perform well. The construction sector is expected to shrink slightly and the public sector will not show much growth, given spending restraints at the federal level. Problems in the Eurozone are not likely to have an impact on the province as only 4% of Manitoba's exports go there. An improved U.S. economy will boost Manitoba exports, although low energy prices will adversely affect Hydro exports.

Employment growth is expected to be modest in 2012, improving somewhat in 2013, but the unemployment rate will remain low, just above that of Alberta and Saskatchewan. Housing starts are expected to moderate, despite the promise of some 13,000 international migrants over the next four years. Retail and vehicle sales are expected to be robust.

No changes are expected in official interest rates in 2012; short-term interest rates may moderate a little, while long-term yields are expected to fall further. The U.S. Federal Reserve has declared that the U.S benchmark funds rate will stay unchanged to 2014 at the very low level of 0.25%, given the high unemployment rate and excess capacity in the economy. Prime will stay at 3% through 2012 and the average 5-year mortgage rate will remain at 5.3%. Interest rates are expected, therefore, to remain very low in the coming year and both the U.S. and the U.K. have promised further quantitative easing should this be needed to stimulate liquidity and private sector borrowing. Longer term yields have declined, as a result, to very low levels.

MANITOBA CREDIT UNION SYSTEM

The Manitoba Credit Union system continued to increase market share in 2011, evidenced by another strong year of growth in deposits and loans, which were up 10.7% and 9.3% respectively (2010: 9.6% and 7.9% respectively). Because deposits outgrew loans, system liquidity also grew. Credit unions' deposits with CUCM ended the year $471 million higher, growth of 21.6% year-over-year. As a percentage of total credit union members' deposits, system liquidity held at CUCM ended the year at 14.8%, compared with 13.4% in 2010.

Credit unions have shortened the terms of their deposits at CUCM. Longer-term (13 months and longer) deposits fell $94 million year-over-year (down 11%) even as shorter-term liquidity balances grew by $562 million (up 43%). Within the short-term category, credit unions have reduced their current account balances in favor of term deposits for their slightly higher returns. This is the third consecutive year in which credit unions have shortened their terms. The primary reasons continue to be that the very low interest rates applicable to longer term deposits are unattractive to credit unions. Additionally, as credit union members are taking advantage of the opportunity to lock in longer-term mortgages while keeping 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 rose slightly, from 3.27% in 2010 to 3.36% in 2011. This increase is primarily due to two factors. First, as it became clear that the Bank of Canada would not raise interest rates in the near future, credit unions shifted funds from their current accounts to higher-yielding short-term deposits. Second, CUCM transacted a substantial number of new asset swaps throughout the year and is paying a higher interest rate on them.

A recent survey of credit unions indicates little or no expected change in total liquidity over the next year. Furthermore, in the absence of a significant rise in term rates, credit unions expect to continue to keep their liquidity in shorter terms. As a risk mitigation strategy aimed at addressing CUCM's ability to fund a potential decline in system liquidity, CUCM continues to maintain a robust supply of investments maturing in the short term.

RETURNS ON CREDIT UNIONS' DEPOSITS

The average cost of funds paid to credit unions (Canadian and US balances, combined) was 79.8 bps on current accounts and 110.3 bps on short-term deposit balances. The combined average cost of funds for these balances was 97.8 bps. Financial margin distributions in 2011 equated to an additional 72.9 bps on short-term liquidity (both current accounts and short term deposits), resulting in a total payment of 170.7 bps to credit unions on their short term deposits. The main contributor to this distribution was the earnings on the asset swap portfolio.

The average cost of funds paid to credit unions on their longer term deposit balances was 322.6 bps. Credit unions earned an additional distribution of financial margin of 16.9 bps on longer term deposits, reflecting the additional income earned from trading the bond investments matched to these deposits. Credit unions received a total payment of 339.5 bps on their longer term deposit balances.

Finally, the incremental income earned on loans to credit unions is distributed to credit unions in proportion to their excess liquidity deposits; in 2011 this component of financial margin equated to an additional 7.7 bps.

FINANCIAL MARGIN

The main components of financial margin earned, excluding unrealized gains/(losses), 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.

CUCM anticipates market interest rates to remain stable in 2012. Barring a sharp increase in deposit balances, financial margin distributed on short-term deposits will likely be within the range of those paid in 2011. Similarly, financial margin distributed on longer-term deposits in 2012 will likely continue to range between 15 and 20 bps. At the current low level of credit union borrowings, distributions on excess liquidity will likely be immaterial.

CUCM is forecasting a decline in financial margin attributed to share capital and paid in the form of dividends. Due to the nature of the funding source, these investments are longer term in nature and were invested at a higher yield. As these investments mature, they are being reinvested at available rates, which are lower.

CELERO / EVERLINK

In 2011, CUCM recorded an IFRS 1 transition adjustment to its opening members' equity for its share of a prior goodwill write-down on Everlink's balance sheet that totalled $823,000. The IFRS 1 transition adjustment also included a reversal of CUCM's share of Everlink's goodwill write-down in 2010 of $769,000 resulting in a net decrease in members' equity of $54,000 as at December 31, 2010. In 2011 there was a further write-down of $2.825 million of goodwill on Everlink's balance sheet. CUCM's share of this write-down was $435,000. 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 in 2010 that any write-downs 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, $7.695 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. Based on Everlink's projected future growth, no further write-down of goodwill on Everlink's statements is expected in the near future. (Please also see the Celero and Everlink sections earlier in this report for general commentary on 2011.)

CUCM YEAR IN REVIEW

The messages from the Chairman of the Board and the President & CEO, earlier in this annual report, contain highlights and major developments, internal and external, that affected CUCM in 2011.

Credit Union Central *of* Manitoba

MANAGEMENT REPORT

February 23, 2012

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 International Financial Reporting Standards, 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
Chief Financial Officer
and Treasurer

February 23, 2012

Independent Auditor's Report

To the Members of Credit Union Central of Manitoba

We have audited the accompanying consolidated financial statements of Credit Union Central of Manitoba and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of operations, comprehensive income (loss), members' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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.

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

PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
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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, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

[redacted]

Chartered Accountants

Consolidated Statement of Financial Position

in thousands of Canadian dollars	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Liquidity pool [note 4]	2,808,514	2,270,635	2,230,735
Derivative financial instruments	6,746	4,470	3,263
Intermediation pool [note 5]	66,512	130,712	158,012
Property and equipment [note 6]	20,273	21,066	21,375
Other assets [note 7]	5,747	7,586	13,179
	2,907,792	2,434,469	2,426,564
Liabilities			
Accounts payable	8,388	9,484	9,773
Members' deposits	2,664,220	2,191,369	1,794,383
Obligations under repurchase agreements	—	—	385,461
Derivative financial instruments	54,318	41,000	47,879
	2,726,926	2,241,853	2,237,496
Members' equity			
Share capital [note 8]	176,639	176,639	176,629
Accumulated other comprehensive income	1,317	1,317	1,317
Retained earnings	2,910	14,660	11,122
	180,866	192,616	189,068
	2,907,792	2,434,469	2,426,564

Approved by the Board of Directors

DIRECTOR

DIRECTOR

Consolidated Statement of Operations and Comprehensive Income (Loss)

for the year ended December 31

in thousands of Canadian dollars		2011		2010
Financial revenue				
Liquidity pool		85,422		78,425
Intermediation pool		2,487		4,127
Total revenue		87,909		82,552
Cost of funds		41,904		39,582
		46,005		42,970
Losses on non-derivative instruments classified as FVTPL [note 13]		(2,993)		(15,018)
Change in unrealized gains/(losses) on derivative financial instruments [note 13]	(9,079)		17,081	
Net cost of derivative financial instruments [note 13]	(24,452)	(33,531)	(24,124)	(7,043)
Financial margin		9,481		20,909
Share of Celero's loss [note 3c]		(470)		(3,332)
Rental income — net		201		239
Net operating recovery [note 10]		428		467
		159		(2,626)
Income before credit union patronage distribution		9,640		18,283
Credit union patronage distributions				
Financial margin distribution		(13,961)		(9,750)
Patronage refund		(1,500)		—
Recovery of Celero's loss [note 3c]		35		3,332
		(15,426)		(6,418)
Income (loss) before income taxes		(5,786)		11,865
Income tax (expense) recovery [note 11]		590		(1,489)
Net income (loss) and comprehensive income (loss) for the year		(5,196)		10,376

Consolidated Statement of Members' Equity

in thousands of Canadian dollars	Members' Shares	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2010	176,629	1,317	11,122	189,068
Net income for the year	—	—	10,376	10,376
Distributions to members net of tax of $932	—	—	(6,838)	(6,838)
Issue of Members' shares [note 8]	10	—	—	10
Balance at December 31, 2010	176,639	1,317	14,660	192,616
Balance at December 31, 2010	176,639	1,317	14,660	192,616
Loss for the year	—	—	(5,196)	(5,196)
Distributions to members net of tax of $894	—	—	(6,554)	(6,554)
Issue of Members' shares [note 8]	2,640	—	—	2,640
Redemption of Members' shares [note 8]	(2,640)	—	—	(2,640)
Balance at December 31, 2011	176,639	1,317	2,910	180,866

Consolidated Statement of Cash Flows

for the year ended December 31

in thousands of Canadian dollars	2011	2010
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	(5,196)	10,376
Items not affecting cash		
Unrealized losses (gains) on instruments held for trading and FVTPL	12,072	(2,063)
Depreciation of property and equipment	1,685	1,504
Deferred income taxes expense (recovery)	(50)	135
Increase in liquidity pool assets — net	(505,305)	(71,866)
Decrease in derivative financial instruments — net	1,963	8,995
Decrease in intermediation pool assets — net	64,200	27,300
Increase in members' deposits — net	470,676	406,461
Net change in other receivables, prepaids, inventories and accounts payable	793	5,169
	40,838	386,011
Investing activities		
Acquisition of property and equipment	(892)	(1,195)
Financing activities		
Increase (decrease) in repurchase agreements	—	(385,461)
Issue of members' shares [note 8]	2,640	10
Redemption of members' shares [note 8]	(2,640)	—
Dividends — net of taxes	(6,554)	(6,838)
	(6,554)	(392,289)
Increase (decrease) in cash	33,392	(7,473)
Overdraft — beginning of year	(18,614)	(11,141)
Cash (overdraft) — End of year	14,778	(18,614)
Supplementary cash flow information		
Income tax paid	656	518

[1] General information

Credit Union Central of Manitoba (the "Organization") is incorporated under the Credit Union Incorporation Act of Manitoba and domiciled in Canada. The address of its registered office is 317 Donald St., Winnipeg, Manitoba, Canada. The Organization is the trade association and service provider to Manitoba credit unions. The Organization manages liquidity reserves, monitors credit granting procedures and provides trade services in areas such as corporate governance, government relations, representation and advocacy. The Organization also provides payment and settlement services, banking, treasury, human resources, research, communications, marketing, planning, lending, product/service research and development, business consulting and legal services to Manitoba credit unions. Manitoba credit unions jointly own the Organization and the Organization's operations are financed through assessments and fee income.

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.

[2] Basis of preparation and adoption of IFRS

The Organization prepares its financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Organization's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 19, the Organization has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 19 discloses the impact of the transition to IFRS on the Organization's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Organization's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

These consolidated financial statements were approved by the Board of Directors for issue on February 23, 2012.

[3] Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for certain investments in liquidity pool assets, members' deposits, obligations under repurchase agreements and derivative financial instruments which are measured at fair value.

CONSOLIDATION

The financial statements consolidate the accounts of the Organization and its wholly owned subsidiary, 317 Donald Inc. Subsidiaries are those entities which the Organization controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

INVESTMENTS IN ASSOCIATES

Associates are entities over which the Organization exercises significant influence, but not control. The Organization accounts for its investment in associates using the equity method. The Organization's share of profits or losses of associates is recognized in the consolidated statement of operations.

Unrealized gains on transactions between the Organization and an associate are eliminated to the extent of the Organization's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests of the Organization in associates are recognized in the consolidated statement of operations.

For investments in associates, a significant or prolonged decline in fair value of the investment below its carrying value is evidence that the assets are impaired. The impairment loss is the difference between the carrying value and its recoverable amount at the measurement date. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

RECOVERIES FROM MEMBER CREDIT UNIONS

Revenue from the provision of services to members is recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

RENTAL INCOME

Third-party rental income related to the operations of 317 Donald Inc. are disclosed separately in the statement of operations. Rental income is recognized when earned specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

FINANCIAL INSTRUMENTS

Financial instruments, other than those required to be designated as held for trading, may be designated on a voluntary and irrevocable basis as fair value through profit and loss (FVTPL) 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 FVTPL.

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

a) Liquidity pool

Investments held for trading

Financial instruments are classified as held for trading if they are a derivative or acquired principally for selling or repurchasing in the near term or managed together for which there is evidence of a recent pattern of short term profit taking. The Corporation's derivatives are the only instruments required to be classified as held for trading (note 3 b).

Investments designated as FVTPL

These investments are recorded at their fair value initially using the trade date for recognizing transactions and thereafter based on inputs other than quoted prices that are observable either directly or indirectly. 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 in unrealized gains (losses) on non-derivative instruments classified as FVTPL.

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.

Cash and cash equivalents

Cash and cash equivalents consists of cash, deposits and overdrafts with financial institutions. Bank overdrafts are included as a component of cash as they represent an integral part of the Organization's cash management. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Transaction costs

All transaction costs are expensed as incurred for assets and liabilities classified as held for trading and designated as FVTPL. Transaction costs for all other financial assets are included in the initial carrying amount.

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 other swap agreements with and at the direction of 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. Cash flows on both the receiving and paying leg of the swap are included in net cost of derivative financial instruments used to manage interest rate risk (note 13) . The fair value of interest rate swap agreements is recorded in derivative financial instrument assets or liabilities, as appropriate, on the consolidated balance sheet with the corresponding gain or loss included in unrealized (loss) gain on derivative financial instruments used to manage interest rate risk (note 13).

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 and at the direction of 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 as FVTPL 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 for the periods presented.

c) Intermediation pool

Equity instruments are designated as available for sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition using the trade data for recognizing transactions. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried 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 financial revenue — intermediation pool using the accrual basis of accounting. Accrued interest or dividends receivable are included with the corresponding principal balance.

Investment in Celero Solutions ("Celero")

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 accounts for its investment in Celero using the equity method. 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 2011, Everlink recorded a further 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 $435. It was decided by the Organization's Board of Directors that this loss would not be recovered from its member credit unions.

d) Impairment of financial assets

At each reporting date, the Organization assesses whether there is objective evidence that a financial asset (other than a financial asset classified as held for trading or FVTPL) is impaired.

The criteria used to determine if there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; or

(iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For an equity security, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If such evidence exists, the Organization recognizes an impairment loss. The impairment loss is the difference between the carrying value of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income.

For financial assets carried at amortized cost, the impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

e) Members' deposits

Members' deposits are designated as FVTPL 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:

- for terms less than 13 months, using prevailing banker's acceptance rates offered by the Organization; and
- for 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 non-derivative instruments classified as FVTPL.

f) Obligations under repurchase agreements

The Organization occasionally 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 FVTPL 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.

INCOME TAXES

The asset and liability method is used to account for deferred income taxes. Under this method, deferred 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. Deferred 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 deferred 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. Deferred income tax assets are recognized to the extent that realization is considered probable. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

PROPERTY AND EQUIPMENT

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses with the exception of land which is not depreciated. Depreciation is recognized 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

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Costs for property and equipment under development include direct development costs including overhead and interest, as applicable. Capitalization of costs ceases and depreciation commences when the property and equipment is available for use.

BORROWING COSTS

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized up to the date when the project is completed and ready for its intended use.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Organization that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

PATRONAGE DISTRIBUTIONS

Patronage distributions, which are at the discretion of management and the Board of Directors, are recognized in net income when circumstances indicate the Organization has a constructive obligation.

FOREIGN CURRENCY TRANSLATION

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

LEASED ASSETS

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Organization (an "operating lease"), the total rentals payable under the lease are charged to the statement of operations on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Organization. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 10 years. Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Intangible assets are classified within technology assets (note 6) based on materiality.

PROVISIONS

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Organization makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Members' deposits classified as fair value through profit and loss

The fair values of members' deposits are not quoted in an active market and are therefore determined by using a discounted cash flow model. The fair value of a members' deposit with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discounted cash flow model used to determine fair values are validated and periodically reviewed by experienced personnel. The inputs in the discounted cash flow model are based on observable data, such as market based discount rates that approximate the redemption features. Changes in assumptions about these factors could affect the reported fair value of members' deposits. A 25 basis point reduction in the discount curve would increase members' deposits and decrease net income by $195. A 25 basis point increase in the discount curve would decrease members' deposits and increase income by $194.

b) Fair value of derivative financial instruments

The fair values of derivative financial instruments are not quoted in an active market and are therefore determined by using a discounted cash flow model. The discounted cash flow model used to determine fair values is validated and periodically reviewed by experienced personnel. The inputs in the discounted cash flow model are based on observable data, such as yield curves associated with interest rates and foreign exchange rates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

c) Held-to-maturity investments

The Organization classifies certain financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Organization evaluates its intention and ability to hold such investments to maturity. If the Organization were to fail to keep these investments to maturity other than for specific circumstances — for example, selling an insignificant amount close to maturity — the Organization is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortized cost. If all held-to-maturity investments were to be so reclassified, the carrying value would increase by $3,990, with a corresponding entry in other comprehensive income and accumulated other comprehensive income.

d) Available for sale financial assets

The Organization holds certain available for sale financial assets within its intermediation pool. The available for sale financial assets do not have quoted market prices in an active market. Fair values for Credit Union Central of Canada and certain other available for sale financial assets are considered to be reliably measurable and are considered to approximate their par value based on the terms of those shares. Fair values for the remaining shares in co-operatives aggregating to $842 are not considered to be reliably measurable due to the wide range of potential events and related cashflows that can be attributed to the shares, accordingly these shares have been recorded at their last known transaction value, which in most cases will be par value. The Organization continues to monitor these shares for any indication that a new reliable measure of fair value is available and any change in the resulting fair value would be recognized in other comprehensive income, unless the shares were determined to be impaired at which time the impairment would be recorded in net income. Furthermore, any disposal of the shares would result in their de-recognition and subsequent recycling of a resultant gain or loss from accumulated other comprehensive income into net income.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

The Organization has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments — Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation — Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities — Non-monetary Contributions by Venturers*. The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

(v) IFRS 13, *Fair Value Measurement*. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements. IFRS 13 is a more comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

(vi) Amendments to IAS 1, *Financial Statement Presentation*, require entities to separate items presented in other comprehensive income (OCI) into two groups, based on whether or not they may be recycled to profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

[4] Liquidity Pool

				December 31, 2011
	Loans and receivables	FVTPL	Held to maturity	Total
Debt securities				
Governments	—	19,735	—	19,735
Banks and trust companies	—	2,110,573	93,700	2,204,273
Corporate	—	568,971	757	569,728
	—	2,699,279	94,457	2,793,736
Cash	14,778	—	—	14,778
	14,778	2,699,279	94,457	2,808,514

				December 31, 2010
	Loans and receivables	FVTPL	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)
	(18,614)	2,157,539	131,710	2,270,635

				January 1, 2010
	Loans and receivables	FVTPL	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)
	(11,141)	2,096,900	144,976	2,230,735

The fair value of debt securities held to maturity is $97,265 (2010 — $137,460; January 1, 2010 — $153,158).
Interest income recognized from debt securities classified as held to maturity during the year was $5,538 (2010 — $6,797).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

[5] Intermediation pool

	December 31, 2011	December 31, 2010	January 1, 2010
Loans and receivables			
Member loans			
Credit unions	44,646	106,182	134,187
Co-operatives	7,295	1,636	1,624
Mortgages	422	456	480
	52,363	108,274	136,291
Available for sale (AFS) financial assets			
Shares			
Credit Union Central of Canada	623	5,534	5,521
Co-operatives	4,656	4,842	5,027
	5,279	10,376	10,548
Equity accounted investments			
Investment in Celero			
Loans receivable	6,059	10,401	10,731
Capital contribution	4,081	5,620	5,620
Accumulated share of deficiency	(1,270)	(3,959)	(5,178)
	8,870	12,062	11,173
	66,512	130,712	158,012

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 available for sale financial assets do not have quoted market prices in an active market. For certain holdings, fair value is considered to be reliably measurable and is considered to approximate par value based on the terms of those shares. For holdings where fair value is not considered to be reliably measurable due to the wide range of potential events and related cashflows that can be attributed to the shares, the shares have been recorded at their last known transaction value, which in most cases will be par value. The Organization continues to monitor these shares for any indication that a new reliable measure of fair value is available.

In 2010, the final sale price of a previously held available for sale financial asset was determined, resulting in an additional gain of $963 being recorded in revenue — intermediation pool for that year.

[6] Property and equipment

	Land	Building	Technology	Furniture and equipment	Leasehold improvements	Total
January 1, 2010						
Cost	1,379	13,817	9,204	2,536	3,241	30,177
Accumulated depreciation	—	(817)	(5,058)	(1,864)	(1,063)	(8,802)
Net book value	1,379	13,000	4,146	672	2,178	21,375
Year ended December 31, 2010						
Opening net book value	1,379	13,000	4,146	672	2,178	21,375
Additions	—	—	1,054	140	1	1,195
Depreciation	—	(276)	(870)	(39)	(319)	(1,504)
Closing net book value	1,379	12,724	4,330	773	1,860	21,066
Cost	1,379	13,817	10,258	2,676	3,242	31,372
Accumulated depreciation	—	(1,093)	(5,928)	(1,903)	(1,382)	(10,306)
Net book value	1,379	12,724	4,330	773	1,860	21,066
Year ended December 31, 2011						
Opening net book value	1,379	12,724	4,330	773	1,860	21,066
Additions	—	—	603	10	279	892
Depreciation	—	(276)	(900)	(182)	(327)	(1,685)
Closing net book value	1,379	12,448	4,033	601	1,812	20,273
Cost	1,379	13,817	10,681	2,667	3,491	32,035
Accumulated depreciation	—	(1,369)	(6,648)	(2,066)	(1,679)	(11,762)
Net book value	1,379	12,448	4,033	601	1,812	20,273

During the year, fully depreciated technology, furniture and equipment and leasehold improvement assets with an initial cost of $179, $19, and $30 respectively (2010 — $nil) were disposed of for no consideration.

[7] Other assets

	December 31, 2011	December 31, 2010	January 1, 2010
Other receivables	3,192	6,676	12,216
Current income taxes recoverable	1,057	—	—
Prepaid expenses and inventories	1,006	910	963
Deferred tax assets	492	—	—
	5,747	7,586	13,179

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

[8] 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

	December 31, 2011	December 31, 2010	January 1, 2010
Class I			
Manitoba credit unions	73,808	61,439	99,901
Co-operatives	1,228	1,228	1,228
Class II			
Manitoba credit unions	101,603	113,972	75,500
	176,639	176,639	176,629

During the year, $12,369 of Class II shares were exchanged for an equivalent amount of Class I shares (2010 — $38,462 of Class I shares were exchanged for an equivalent amount of Class II shares). In addition, nil (2010 — $nil) of Class I shares and $2,640 (2010 — $10) of Class II shares were issued for cash consideration along with a corresponding redemption in cash of Class II shares of $2,640.

[9] Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations. During the year, the Organization's charges to Celero aggregated to $2,255 (2010 — $2,376) and Celero's charges to the Organization aggregated to $872 (2010 — $615). The net recovery from Celero of $1,383 (2010 — $1,761) is included as an offset to net operating expenses (note 10).

Interest charges to Celero on loans receivable was $229 (2010 — $238) for the year.

Other receivables include $58 due from Celero (2010 — $22).

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel is comprised of the Organization's executive management and Directors. The summary of compensation for key management personnel is as follows:

	2011	2010
Salaries and other short-term employee benefits	2,417	2,343
Other long-term benefits	118	114
Post-employment benefits	4	6
	2,539	2,463

Included in the compensation of key management personnel above is Directors' remuneration of $271 (2010 — $285).

Outstanding mortgages and computer loans to key management personnel amount to $201 (2010 — $183). Mortgages bear interest at the average of one year closed rate of the five chartered banks as published in the Organization's Interest Rate survey less 2% while computer loans bear interest at 0%. The mortgages are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel.

[10] Net operating recovery

	2011	2010
Recoveries from member credit unions		
Clearing fees and other financial charges	7,608	6,958
Basic assessment	5,216	5,003
Fee for service	2,668	2,894
Liquidity management assessment	1,921	1,812
The Credit Union Deposit Guarantee Corporation fees	236	233
Printing and supplies — net of cost of $943 (2010 — $1,205)	146	108
	17,795	17,008
Operating expenses		
Personnel	8,642	8,878
National shared costs	1,929	1,943
Depreciation and leasing	1,729	1,558
Hardware and software maintenance	1,282	1,170
Settlement costs	1,215	1,071
Occupancy costs	936	969
Professional services	817	723
General	664	815
Co-operative democracy	554	505
Dues, grants and memberships	334	246
Travel	230	250
Insurance and bonding	194	205
Telephone and computer telecommunications	148	167
Printing and supplies	141	141
Capitalized costs	(65)	(339)
Net recovery from Celero [note 9]	(1,383)	(1,761)
	17,367	16,541
Net operating recovery	428	467

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

[11] Income taxes

The significant components of the provision for income taxes included in the statement of operations are composed of:

	2011	2010
Current income taxes		
Based on current year taxable income	(560)	1,354
Reduction (increase) in tax rates	(39)	—
Adjustment recognized for current tax of prior periods	59	—
Total current income taxes	(540)	1,354
Deferred income taxes		
Origination and reversal of temporary differences	(57)	53
Reduction (increase) in tax rates	—	22
Adjustment recognized for deferred taxes of prior periods	7	60
Total deferred income taxes	(50)	135
Total provision for (recovery of) income taxes	(590)	1,489

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

shown as %	2011	2010
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Additional deduction for credit unions	(17.00)	(17.00)
Net federal tax rate	11.00	11.00
Provincial tax rate	1.00	0.92
	12.00	11.92

Changes to the provincial tax rate were due to the substantive enactment of an increase in the Manitoba provincial tax rate for credit unions.

Reasons for the difference between the tax expense for the year and the expected income taxes based on the statutory rate of 12% (2010 — 11.92%) are as follows:

	2011	2010
Net income (loss) for the year	(5,786)	11,865
Expected provision for income taxes at statutory rates	(694)	1,414
Change in expected future tax rates		
Non-taxable items		
Non-taxable portion of capital gains	—	(57)
Other non-deductible portion of expenses/non-taxable income	39	(11)
Impact of change in tax rates	(39)	22
Higher tax rate applicable to subsidiary	37	102
Adjustment recognized for tax of prior periods	66	60
Other	1	(41)
Total provision for (recovery of) income taxes	(590)	1,489

Current income taxes recoverable (payable) as at December 31, 2011 were $1,057 (2010 — ($140), January 1, 2010 — ($248)) and has been included in other assets and accounts payable, as applicable.

Components of the deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Provisions for expenditures currently not deductible for income tax purposes	214	224	126
Non-capital losses	947	—	15
	1,161	224	141
Deferred tax liabilities			
Capital cost allowance in excess of depreciation	(585)	(582)	(355)
Intermediation pool assets	(84)	(94)	(103)
	(669)	(676)	(458)
Total deferred taxes	492	(452)	(317)

Deferred income tax assets (liabilities) as at December 31, 2011 have been included in other assets and accounts payable, as applicable.

The Organization has no material unrecognized temporary differences related to its wholly-owned subsidiary and its investment in associates.

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Deferred tax assets to be recovered within 12 months	214	224	126
Deferred tax assets to be recovered after more than 12 months	947	—	15
	1,161	224	141
Deferred tax liabilities			
Deferred tax liabilities to be realized after more than 12 months	(669)	(676)	(458)
	(669)	(676)	(458)
Net deferred tax asset (liability)	492	(452)	(317)

Based on the Income Tax Act, credit unions are entitled to a deduction from taxable income related to payments in respect of shares and therefore any dividends paid or payable by the Credit Union would result in tax savings of 12% (2010 — 11.92%). As a result, dividends charged against reserves are net of the foregoing related income tax savings of $894 (2010 — $932).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

The movement in 2011 deferred tax assets and liabilities are:

2011	Opening January 1, 2011	Recognize in Net Income	Recognize directly in Equity	Closing, December 31, 2011
Deferred tax assets				
Provisions for expenditures currently not deductible for income tax purposes	224	(10)	—	214
Non-capital losses	—	53	894	947
Deferred tax asset	224	43	894	1,161
Deferred tax liabilities				
Capital cost allowance in excess of depreciation	(582)	(3)	—	(585)
Intermediation pool assets	(94)	10	—	(84)
Deferred tax liability	(676)	7	—	(669)
Net deferred tax asset (liability)	(452)	50	894	492

The movement in 2010 deferred tax assets and liabilities are:

2010	Opening January 1, 2010	Recognize in Net Income	Recognize directly in Equity	Closing, December 31, 2010
Deferred tax assets				
Provisions for expenditures currently not deductible for income tax purposes	126	98	—	224
Non-capital losses	15	(15)	—	—
Deferred tax asset	141	83	—	224
Deferred tax liabilities				
Capital cost allowance in excess of depreciation	(355)	(227)	—	(582)
Intermediation pool assets	(103)	9	—	(94)
Deferred tax liability	(458)	(218)	—	(676)
Net deferred tax liability	(317)	(135)	—	(452)

[12] 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. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2011 were $359 (2010 — $357). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

[13] Gains (losses) on financial instruments

	2011	2010
Liquidity pool investments	(818)	(24,493)
Members' deposits	(2,175)	9,475
Unrealized gains (losses) on non-derivative financial instruments classified as FVTPL	(2,993)	(15,018)
Unrealized loss on derivative financial instruments used to manage interest rate risk [note 16]	(9,079)	17,081
Net cost of derivative financial instruments used to manage interest rate risk [note 16]	(24,452)	(24,124)
Net cost and unrealized losses on derivative financial instruments	(33,531)	(7,043)

Derivative financial instruments utilized are economic hedges used to manage interest rate risk associated with the Organization's investment in long term debt securities matched to short term members' deposits. Such derivative financial instruments have the economic effect of converting a long term fixed interest rate debt instrument to a synthetic floating rate instrument with a higher yield than would otherwise be available.

[14] Commitments

During 2008, the Organization entered into a *Managed Services Agreement* with Misys International Banking Systems Inc with respect to the hosted Treasury Management System (Opics) under which the Organization committed to pay $5,443 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 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 with respect to the Statement Services Project under which the Organization committed to pay $374 USD over the five year contract.

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 was $221 based on the Organization's share of total banking costs.

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

in thousands of Canadian dollars	
2012	860
2013	873
2014	810
2015	824
2016	838
Thereafter	1,705

The Organization has outstanding letters of credit with Scotiabank in the approximate amount of $1,702 at December 31, 2011 (2010 — $754). These letters of credit are entered into on behalf of member credit unions and are fully indemnified.

[15] Indemnifications

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.

[16] 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 to its operations. The Organization manages and mitigates risk through the diversification of its financial instruments 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; and
- Other price risk — Risk that the fair value of a financial instrument will fluctuate due to changes in market prices.

RISK MANAGEMENT FRAMEWORK

The Organization's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Organization's risk management framework 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. Principles for risk tolerance and overall risk management are documented within risk management policies which are approved by the Board. Management regularly reports to the Board on compliance with those policies. 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 demand deposits and term deposits from member credit unions at floating and fixed rates respectively and invests those funds in floating and fixed rate securities to earn interest rate margin.

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 instruments — FVTPL	Interest rate risk, liquidity risk, credit risk, foreign exchange risk and other price 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

The Organization is exposed to credit risk primarily through its liquidity pool and intermediation pool investments and 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. All liquidity pool investments must be rated by at least two recognized rating agencies. The Organization defines 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 and may only enter into financial instruments as follows:

Derivative financial instruments:

- Counterparties to derivative financial instruments are restricted to AA (Low) 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 A (High)

In addition to defining minimum credit ratings for all individual investments, no more than 20% of the total portfolio may be comprised of securities rated R-1 (Low) / A (mid) or lower.

To further reduce credit risk, the Organization requires a minimum level of economic diversification. The maximum compositions by sector are shown below.

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	R-1 (High)
All other corporate	50%	AAA – A	R-1 (High) – R-1 (Low)
Total ABS and other corporate	85%		

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;
- retractable at the Organization's option within 5 years;
- 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; or
- matched to a derivative financial instrument, resulting in the net receipt of a floating interest rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

Liquidity pool investments' credit rating and period of maturity are as follows:

					December 31, 2011
Credit rating	Less than 6 months	6 months to 1 year	1 to 5 years	Greater than 5 years	Total
AAA/R-1 (High)	334,485	60,503	30,948	10,743	436,679
AA/R-1 (Middle)	333,946	306,038	1,444,485	165,914	2,250,383
A/R-1 (Low)	106,674	—	—	—	106,674
	775,105	366,541	1,475,433	176,657	2,793,736

					December 31, 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
	568,586	323,108	1,304,883	92,672	2,289,249

					January 1, 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)	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
	570,239	81,366	1,577,631	12,640	2,241,876

At the end of 2010 the Organization reported a small investment holding with an issuer that was no longer rated. This debt was being repaid in monthly installments and was fully repaid in 2011.

Intermediation pool investments:

- The Organization is committed to investing in CUCC and Central 1 as required.
- Investments in other co-operatives, Celero, and mortgages and loans require a credit risk assessment and approval of the Board of Directors.
- 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 risk is managed through Board approved policies which requires the Organization to ensure an adequate supply of maturing investments is maintained to fund potential system liquidity needs. In addition, the liquidity pool investments are securities that are readily liquid in the marketplace.

The contractual undiscounted maturities of financial liabilities are as follows:

						2011
	Current Accounts	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
Members' deposits	674,146	1,264,549	142,330	595,653	—	2,676,678
Derivative financial instruments	11,950	2,165	3,844	23,883	16,774	58,616
Accounts payable	8,131	—	—	—	—	8,131
Undiscounted contractual amount of liabilities	694,227	1,266,714	146,174	619,536	16,774	2,743,425
Carrying value of liabilities	694,227	1,274,911	137,541	605,886	14,103	2,726,668

						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	2,723	23,634	6,544	43,214
Accounts payable	8,892	—	—	—	—	8,892
Undiscounted contractual amount of liabilities	850,946	406,950	400,374	563,863	20,162	2,242,295
Carrying value of liabilities	850,946	585,780	236,362	549,135	19,039	2,241,261

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.

Interest-sensitive assets and interest-sensitive liabilities are matched by amount and interest rate re-pricing terms so as to minimize income fluctuations should market interest rates change. The Organization sets policy limits on the maximum amount of mismatch as follows:

Term over 13 months

- All financial assets and liabilities (liquidity pool investments and members' deposits, respectively) maturing beyond 13 months must be matched.

Term of 180 days to 13 months

- Unmatched financial instruments maturing within 270 – 394 days and 180 – 269 days are permitted to a maximum of 2% and 4%, respectively, of the total liquidity pool investment portfolio.

Term of less than 180 days

- The average terms of these assets and liabilities is calculated and monitored daily. The difference between the two may not exceed 30 days.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

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

Interest repricing period	Interest sensitive	Not interest sensitive	Derivative receiving	Derivative paying	Net asset/liability mis-match
0 to 6 months	(1,075,005)	(66,837)	1,211,357	(125,977)	(56,462)
6 to 12 months	271,164	(35,098)	—	(192,652)	43,414
1 to 2 years	227,981	(49,698)	—	(176,560)	1,723
2 to 3 years	54,217	15	—	(52,496)	1,736
3 to 4 years	374,858	(20,300)	—	(348,210)	6,348
4 to 5 years	169,063	—	—	(167,165)	1,898
Over 5 years	148,843	—	—	(147,500)	1,343
	171,121	(171,918)	1,211,357	(1,210,560)	—

At December 31, 2011 derivatives recorded included cross-currency swaps outstanding with a total notional value of $84,500 swapped for US dollars with a notional value of $85,297 (USD $83,584) (2010 — $74,500 swapped for USD with a notional value of $72,950 (USD $73,260)).

Including the effect of the derivative financial instruments, the weighted average effective return for interest-sensitive assets is 3.75% and the weighted average effective cost for interest-sensitive liabilities is 3.36%.

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 decrease the Organization's financial margin effective with that period while a fall in interest rates would increase 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 on behalf of its member credit unions. The credit risk associated with these interest rate agreements are the responsibility of the member credit unions.

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, 2011, the Organization estimates that an immediate and sustained 25 basis point increase in interest rates would reduce financial margin reported by $454 while an immediate and sustained 25 basis point decrease in interest rates would increase financial margin reported by $459.

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 prohibits exposure to currencies other than the US dollar and restricts the US dollar asset (liability) exposure to no more than USD $250. 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 U.S. 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, 2011 was USD $5 (2010 — USD ($134)).

As at December 31, 2011, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating USD $8,432 and to sell US dollars aggregating USD $7,230, inclusive of transactions with member credit unions (2010 — buy US dollars aggregating USD $12,873 and to sell US dollars aggregating USD $12,655, 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 are settled within one month of the transaction date.

As at December 31, 2011, 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 (2010 — impact was nominal).

FAIR VALUE MEASUREMENTS

IFRS 7 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 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.

				2011
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets — held for trading and FVTPL				
Governments	—	19,735	—	19,735
Banks and trust companies	—	2,110,573	—	2,110,573
Corporate	—	568,971	—	568,971
Derivatives	—	6,746	—	6,746
Total assets	—	2,706,025	—	2,706,025
Financial liabilities — held for trading and FVTPL				
Members' deposits	—	2,664,220	—	2,664,220
Derivatives	—	54,318	—	54,318
Total liabilities	—	2,718,538	—	2,718,538

				2010
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets — held for trading and FVTPL				
Governments	—	7,706	—	7,706
Banks and trust companies	—	1,694,079	—	1,694,079
Corporate	—	455,754	—	455,754
Derivatives	—	4,470	—	4,470
Total assets	—	2,162,009	—	2,162,009
Financial liabilities — held for trading and FVTPL				
Members' deposits	—	2,191,369	—	2,191,369
Derivatives	—	41,000	—	41,000
Total liabilities	—	2,232,369	—	2,232,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

[17] 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's capital plan includes a long-term forecast of capital requirements. The Organization also assesses capital adequacy monthly via 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 17.5:1 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 liquidity pool debt security portfolio designated as held-to-maturity.

The Organization's borrowing multiple is 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, 2011, the Organization was in compliance with its required OSFI capital adequacy ratio. At December 31, 2011, the Organizations' borrowing multiple was 15.17:1 (2010 — 11.10:1, January 1, 2010 — 10.93:1). The Organization filed its annual OSFI return for the year ended December 31, 2011 on February 27, 2012.

[18] Investment in Celero

Aggregated financial information of Celero Solutions, accounted for using the equity method, is as follows:

	2011	2010
Assets	41,354	56,371
Liabilities	31,918	51,061
Revenues	80,515	75,157
Loss	(1,150)	(10,689)
% interest held by the Organization	31.4%	31.4%

There were no published price quotations for the investment in Celero. Furthermore, there are no significant restrictions on the ability of Celero to transfer funds to the Organization in the form of either cash dividends or repayments of loans/advances.

COMMITMENTS

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 $12,068 in software maintenance fees over the next four 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 $5,956 in ancillary product maintenance and support fees over the next four years.

Celero has entered into 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 $2,951 over the next three years.

Celero has leases for premises in Alberta, Saskatchewan and Manitoba with total rental obligations of $5,966 over the next five years.

Celero has additional obligations under various agreements for equipment, licensing, maintenance and professional fees totaling $3,760 over the next five years.

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:

	Banking platform maintenance	Ancillary products maintenance	Data centre management	Premises leases	Other	Total
2012	947	468	577	415	495	2,902
2013	947	468	306	364	323	2,408
2014	947	468	43	364	319	2,141
2015	947	468	—	364	32	1,811
2016	—	—	—	364	13	377

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 and an authorized overdraft facility to a maximum of $6,275 and USD $100. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2011 and 2010, there were no draws against the line of credit or the authorized overdraft facility.

[19] Transition to IFRS

The effect of the Organization's transition to IFRS, described in note 2, is summarized as follows:

(i) TRANSITION ELECTIONS

Optional exemptions

Property and equipment, fair value as deemed cost
The Organization has elected not to use the fair value as deemed cost for any asset or property and equipment as of January 1, 2010, the date of transition.

Financial instruments
The Organization has elected not to re-designate any financial assets as at January 1, 2010.

Borrowing costs
The Organization has applied IAS 23R for annual periods beginning on or after January 1, 2010, the date of transition to IFRS. Under Canadian GAAP, the Organization had an accounting policy of capitalizing interest. Accordingly, the Organization did not reverse any previously capitalized borrowing costs recognized under Canadian GAAP.

Mandatory exception

Estimates
At the date of transition, the Organization's estimates under IFRS are consistent with estimates previously made under Canadian GAAP. Hindsight has not been used to create or revise any estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Canadian dollars)

(ii) RECONCILIATIONS

IFRS 1 requires an entity to reconcile members' equity, comprehensive income and cash flows to prior periods if adoption of IFRS has resulted in certain changes to the Organization's reported financial position, results of operations and cash flows. The following represents the reconciliations of the Organization's total members' equity and comprehensive income from Canadian GAAP to IFRS for the respective periods noted, reflecting the Organization's transitional adjustments that have an impact on these financial statement line items. Explanations for the transitional adjustments are provided below.

Reconciliation of members' equity

	Notes	December 31, 2010	January 1, 2010
As reported under Canadian GAAP		191,353	188,574
Differences increasing (decreasing) reported amount			
AFS financial assets	*(a)*	1,401	1,401
Deferred income taxes	*(b)*	(84)	(84)
Equity accounted investments	*(c)*	(54)	(823)
Total increase to reported members' equity		1,263	494
As reported under IFRS		192,616	189,068

(a) AFS financial assets
As a result of the transition to IFRS, AFS financial assets are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost. Under Canadian GAAP such AFS financial assets, where a quoted market price in an active market is not available, are recorded at cost. On transition an AFS investment was adjusted to the most recently determined fair value. The net impact resulted in an increase to intermediation pool assets and equity of $1,401.

(b) Deferred income taxes
As a result of the transition to IFRS the carrying amounts of AFS financial assets have been adjusted (as noted above). There has not been a corresponding change to the tax basis of these assets. As a result of the change, deferred income tax liabilities have increased by $84 at January 1, 2010 with a corresponding decrease in equity.

(c) Equity accounted investments
The Organization's proportionate share of Everlink's goodwill impairment at January 1, 2010 was $823 under IFRS compared to nil under Canadian GAAP. During the year ended December 31, 2010, a goodwill impairment that was previously reported under Canadian GAAP of $769 was reversed under IFRS. There was no deferred tax asset recognized as a result of the transactions as the deferred tax asset on the outside basis of the investment in Everlink by Celero was not probable of being realized.

Reconciliation of comprehensive income for the year ended December 31, 2010

The transition from Canadian GAAP to IFRS has had an impact on the statement of operations of the Organization resulting from the Organization's share of the change in the timing of the impairment loss recorded on Everlink. This change resulted in an increase in the reported net income in 2010 of $769.

(iii) ADJUSTMENT TO THE STATEMENT OF CASH FLOWS

The transition from Canadian GAAP to IFRS resulted in the reclassification of sources (uses) of cash flows associated with liquidity pool, derivative financial instruments and intermediation pool assets from investing activities to operating activities and members' deposits from financing activities to operating activities.

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.

FORTY-FIVE YEARS

Alvin D. Wiebe *Assistant Manager • Niverville Credit Union*

FORTY YEARS

Bill Burla *Director • Ethelbert Credit Union*
Fran Derksen *Controller • Access Credit Union*
Wayne McLeod *President and CEO • Westoba Credit Union*

THIRTY-FIVE YEARS

Ross G. Ballantine *Chief Executive Officer • Community Credit Union*
Kathy Lamont *Loans Officer III • Westoba Credit Union*
Albert Paziuk *Director • Ethelbert Credit Union*
Carol Taylor *Member Service Manager • Minnedosa Credit Union*
Judy Wahl *Operational Analyst • Access Credit Union*
Dale Ward *Corporate Secretary • Credit Union Central of Manitoba*

THIRTY YEARS

Coleen Bryson *Loans Officer III • Westoba Credit Union*
Don Cataford *VP Business Development, Winnipeg • Westoba CU*
Liz Fehr *Banking System Analyst • Access Credit Union*
Tom Fehr *Board Secretary • Flin Flon Credit Union*
Reuben Hagan *Vice-President • Flin Flon Credit Union*
Amelia Humeny *HR Coordinator • Cambrian Credit Union*
Jake Janzen *Director/Vice Chair • Community Credit Union*
Sherri-Ann King *Loans Officer II • Westoba Credit Union*
Cheri Lelond *Executive Assistant • Westoba Credit Union*
Nettie Lepage *Branch Manager • Westoba Credit Union*
Rick Male *VP — Retail Credit & Support Services • Cambrian Credit Union*
Valerie Penner *Internal Processing Clerk • Access Credit Union*
Sandra Ryan *Printing & Supply Supervisor • CUCM*
William Siwak *Director/Board Chair • Community Credit Union*
Adele Smith *Loans Officer II • Westoba Credit Union*
Karen Wise *Office Supervisor • Westoba Credit Union*

TWENTY-FIVE YEARS

Madelyn Anderson *Operational Products Clerk • CUCM*
Valerie Bamford *MSR IV • Westoba Credit Union*
Shelley Bartley *Branch Manager • Access Credit Union*
Beverley Becker *Office Supervisor • Westoba Credit Union*
Edward Bilcowski *Director • Minnedosa Credit Union*
Kevin Bower *VP Lending • Westoba Credit Union*
Donna Cantlon *Office Supervisor • Westoba Credit Union*
Arlene Delichte *Loans Officer • Westoba Credit Union*
Mary Ann Everett *Personnel Coordinator • Westoba Credit Union*
Sharran Flaten *Assistant Branch Manager • Community Credit Union*
Brad Galatiuk *Loans Manager • Roblin Credit Union*
Susan Glasgow *Finance Manager • Minnedosa Credit Union*
Rod Gourlay *Board President • Flin Flon Credit Union*
Shari Hill *MSR III • Westoba Credit Union*
Corinne Hodgson *Loans Clerk • Westoba Credit Union*
Maryann Kologinski *Loans Manager • Erickson Credit Union*
Bert Marshall *Director • Roblin Credit Union*
Joyce McDonald *Office/Loans Manager • Flin Flon Credit Union*
Nici Milton *Supervisor Banking Services • CUCM*
Sherry Mullin *Loans Officer • Westoba Credit Union*
Donna Pleskacz *MSR Supervisor • Westoba Credit Union*
Shig Saito *Project Manager • Credit Union Central of Manitoba*
Sherry Sprott *Payroll Officer • Westoba Credit Union*

ROBLIN *and* **STEINBACH CREDIT UNIONS** *celebrated their 70th anniversaries in 2011.*

CASERA CREDIT UNION *turned 60, and* **RORKETON & DISTRICT CREDIT UNION** *celebrated 50 years.*

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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