Credit Union Central of Manitoba Limited

Consolidated Financial Statements
December 31, 2012

(in thousands of Canadian dollars)

pwc

February 22, 2013

Independent Auditor's Report

To the Members of Credit Union Central of Manitoba Limited

We have audited the accompanying consolidated financial statements of Credit Union Central of Manitoba Limited and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of operations and comprehensive income (loss), members' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

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Credit Union Central of Manitoba Limited

Consolidated Statement of Financial Position

As at December 31

(in thousands of Canadian dollars)

	2012	2011
Assets		
Liquidity pool (note 4)	3,127,640	2,808,514
Derivative financial instruments	7,352	6,746
Intermediation pool (note 5)	88,654	66,512
Property and equipment (note 6)	19,421	20,273
Other assets (note 7)	5,758	5,747
	3,248,825	2,907,792
Liabilities		
Accounts payable	32,508	8,388
Members' deposits	2,954,556	2,664,220
Derivative financial instruments	34,575	54,318
	3,021,639	2,726,926
Members' equity		
Share capital (note 8)	199,060	176,639
Accumulated other comprehensive income	1,225	1,317
Retained earnings	26,901	2,910
	227,186	180,866
	3,248,825	2,907,792

Approved by the Board of Directors

Director Director

Credit Union Central of Manitoba Limited

Consolidated Statement of Operations and Comprehensive Income (Loss)

For the year ended December 31

(in thousands of Canadian dollars)

	2012	2012	2011	2011
Financial revenue				
Liquidity pool		93,845		85,422
Intermediation pool		1,188		2,487
Total revenue		95,033		87,909
Cost of funds		45,012		41,904
		50,021		46,005
Unrealized gains (losses) on non-derivative instruments (note 13)		5,853		(2,993)
Unrealized gains (losses) on derivative financial instruments (note 13)	21,173		(9,079)	
Net cost of derivative financial instruments (note 13)	(20,002)	1,171	(24,452)	(33,531)
Financial margin		57,045		9,481
Share of Celero's loss (note 3 f) iii)		(617)		(470)
Rental income – net		177		201
Net operating recovery (note 10)		312		428
		(128)		159
Income before credit union patronage distributions		56,917		9,640
Credit union patronage distributions				
Financial margin distribution		(22,582)		(13,961)
Patronage refund		-		(1,500)
Recovery of Celero's loss (note 3 f) iii)		617		35
		(21,965)		(15,426)
Income (loss) before income taxes		34,952		(5,786)
Income tax (expense) recovery (note 11)		(4,525)		590
Net income (loss) for the year		30,427		(5,196)
Other comprehensive loss (note 11)				
Change in unrealized gains on available-for-sale assets of nil (net of income tax of $92)		(92)		-
Comprehensive income (loss) for the year		30,335		(5,196)

Credit Union Central of Manitoba Limited

Consolidated Statement of Members' Equity

(in thousands of Canadian dollars)

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2011	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 shares (note 8)	2,640	-	-	2,640
Redemption of shares (note 8)	(2,640)	-	-	(2,640)
Balance at December 31, 2011	176,639	1,317	2,910	180,866
Balance at December 31, 2011	176,639	1,317	2,910	180,866
Income for the year	-	-	30,427	30,427
Other comprehensive loss net of tax of $92	-	(92)	-	(92)
Distributions to members net of tax of $973	-	-	(6,436)	(6,436)
Issue of shares (note 8)	22,421	-	-	22,421
Balance at December 31, 2012	199,060	1,225	26,901	227,186

Credit Union Central of Manitoba Limited

Consolidated Statement of Cash Flows

For the year ended December 31

(in thousands of Canadian dollars)

	2012	2011
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	30,427	(5,196)
Items not affecting cash		
Unrealized losses (gains) on instruments held for trading and FVTPL	(27,026)	12,072
Depreciation of property and equipment	1,651	1,685
Loss on disposal of property and equipment	67	-
Deferred income taxes recovery	(458)	(50)
Increase in liquidity pool assets - net	(352,827)	(505,305)
Decrease in derivative financial instruments - net	824	1,963
Decrease (increase) in intermediation pool assets - net	(22,142)	64,200
Increase in members' deposits - net	295,046	470,676
Net change in other assets and accounts payable	24,475	793
	(49,963)	40,838
Investing activities		
Acquisition of property and equipment (note 6)	(866)	(892)
Financing activities		
Issue of members' shares (note 8)	22,421	2,640
Redemption of shares (note 8)	-	(2,640)
Dividends - net of taxes	(6,436)	(6,554)
	15,985	(6,554)
Increase (decrease) in cash	(34,844)	33,392
Cash (overdraft) - Beginning of year	14,778	(18,614)
Cash (overdraft) - End of year	(20,066)	14,778

Supplementary cash flow information		
Income tax paid	269	656

(in thousands of Canadian dollars)

1 General information

Credit Union Central of Manitoba (the "Organization") is incorporated under the *Credit Union Incorporation Act of Manitoba* and is 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.

2 Basis of preparation

The Organization prepares its financial statements in accordance with the *Cooperative Credit Associations Act*, which requires them to be in accordance with Canadian generally accepted accounting principles as defined in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants (International Financial Reporting Standards or IFRS), 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.

These consolidated financial statements were approved by the Board of Directors for issue on February 22, 2013.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of measurement

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

b) 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.

(in thousands of Canadian dollars)

c) 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 an asset's value in use.

d) 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.

e) 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.

f) 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.

(in thousands of Canadian dollars)

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

i. 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 f) ii).

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 funded by 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.

(in thousands of Canadian dollars)

ii. 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 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 gains (losses) 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. The fair value of foreign exchange forward 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 financial revenue – liquidity pool.

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.

(in thousands of Canadian dollars)

iii. 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 date 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.

iv. 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

(in thousands of Canadian dollars)

value of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of operations.

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.

v. Members' deposits

Members' deposits are designated as FVTPL and recorded at their fair value initially using the trade date for recognizing transactions. Members' deposits are redeemable at the option of 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.

g) 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.

(in thousands of Canadian dollars)

h) 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.

i) 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.

j) 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.

k) 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.

(in thousands of Canadian dollars)

l) 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.

m) 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.

n) 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.

o) 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.

i. Members' deposits classified as FVTPL

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 $3,371. A 25 basis point increase in the discount curve would decrease members' deposits and increase net income by $3,349.

ii. 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

(in thousands of Canadian dollars)

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.

iii. 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 $770, with a corresponding entry in other comprehensive income and accumulated other comprehensive income.

iv. 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 certain 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 cash flows 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.

p) 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 FVTPL. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at FVTPL 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.

(in thousands of Canadian dollars)

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 FVTPL 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.

(in thousands of Canadian dollars)

4 Liquidity pool

				December 31, 2012
	Loans and Receivables	**FVTPL**	**Held to maturity**	**Total**
Debt instruments				
Governments	-	13,924	-	13,924
Banks and trust companies	-	2,596,647	49,977	2,646,624
Corporate	-	487,158	-	487,158
		3,097,729	49,977	3,147,706
Overdraft	(20,066)	-	-	(20,066)
	(20,066)	3,097,729	49,977	3,127,640

				December 31, 2011
	Loans and Receivables	**FVTPL**	**Held to maturity**	**Total**
Debt instruments				
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

The fair value of debt instruments held to maturity is $50,747 (2011 - $97,265). Interest income recognized from debt instruments classified as held to maturity during the year was $4,431 (2011 - $5,538).

(in thousands of Canadian dollars)

5 Intermediation pool

	December 31, 2012	December 31, 2011
Loans and receivables		
Member loans		
Credit unions	67,939	44,646
Co-operatives	7,295	7,295
Mortgages	473	422
	75,707	52,363
Available for sale (AFS) financial assets		
Shares in co-operatives	5,279	5,279
Equity accounted investments		
Investment in Celero		
Loans receivable	5,725	6,059
Capital contribution	3,773	4,081
Accumulated share of deficiency	(1,830)	(1,270)
	7,668	8,870
	88,654	66,512

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 cash flows 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 thousands of Canadian dollars)

6 Property and equipment

	Land	Building	Technology	Furniture and equipment	Leasehold improvements	Total
January 1, 2011						
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
Year ended December 31, 2012						
Opening net book value	1,379	12,448	4,033	601	1,812	20,273
Additions	-	-	827	39	-	866
Disposals	-	-	(67)	-	-	(67)
Depreciation	-	(276)	(869)	(163)	(343)	(1,651)
Closing net book value	1,379	12,172	3,924	477	1,469	19,421
Cost	1,379	13,817	11,425	2,706	3,491	32,818
Accumulated depreciation	-	(1,645)	(7,501)	(2,229)	(2,022)	(13,397)
Net book value	1,379	12,172	3,924	477	1,469	19,421

During the year, software with an initial cost of $83 and accumulated depreciation of $16 was disposed of for no consideration.

In 2011, fully depreciated technology, furniture and equipment and leasehold improvement assets with an initial cost of $179, $19, and $30 respectively were disposed of for no consideration.

(in thousands of Canadian dollars)

7 Other assets

	December 31, 2012	December 31, 2011
Other receivables	3,966	3,192
Current income taxes recoverable	-	1,057
Prepaid expenses and inventories	877	1,006
Deferred tax assets	915	492
	5,758	5,747

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, 2012	December 31, 2011
Class I		
Manitoba credit unions	99,534	73,808
Co-operatives	1,228	1,228
Class II		
Manitoba credit unions	93,565	98,963
Co-operatives	4,733	2,640
	199,060	176,639

During the year, $4,967 of Class II shares were exchanged for an equivalent amount of Class I shares (2011 - $12,369). In addition, $20,759 (2011 - $nil) of Class I shares and $1,662 (2011 - $2,640) of Class II shares were issued for cash consideration along with a corresponding redemption in cash of Class II shares of $nil (2011 - $2,640).

(in thousands of Canadian dollars)

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 $2,308 (2011 - $2,255) and Celero's charges to the Organization aggregated to $883 (2011 - $872). The net recovery from Celero of $1,425 (2011 - $1,383) is included as an offset to net operating expenses (note 10).

Interest charges to Celero on loans receivable was $180 (2011 - $229) for the year.

Other receivables include $40 due from Celero (2011 - $58).

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:

	2012	2011
Salaries and other short-term employee benefits	2,454	2,417
Other long-term benefits	113	118
Post-employment benefits	2	4
	2,569	2,539

Included in the compensation of key management personnel above is Directors' remuneration of $296 (2011 - $271).

Outstanding mortgages and computer loans to key management personnel amount to $145 (2011 - $201). 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 are non-interest bearing. The mortgages are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period and no specific allowance has been made for impairment losses on balances with key management personnel.

(in thousands of Canadian dollars)

10 Net operating recovery

	2012	2011
Recoveries from member credit unions		
Clearing fees and other financial charges	7,456	7,608
Basic assessment	5,203	5,216
Fee for service	2,580	2,668
Liquidity management assessment	2,069	1,921
The Deposit Guarantee Corporation of Manitoba fees	238	236
Printing and supplies - net of cost of $1,117 (2011 - $943)	189	146
	17,735	17,795
Operating expenses		
Personnel	8,773	8,642
National shared costs	2,116	1,929
Depreciation and leasing	1,690	1,729
Hardware and software maintenance	1,248	1,282
Settlement costs	1,282	1,215
Occupancy costs	945	936
Professional services	751	817
General	436	664
Co-operative democracy	627	554
Dues, grants and memberships	337	334
Travel	241	230
Insurance and bonding	202	194
Telephone and computer telecommunications	169	148
Printing and supplies	106	141
Capitalized costs	(75)	(65)
Net recovery from Celero (note 9)	(1,425)	(1,383)
	17,423	17,367
Net operating recovery	312	428

(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:

	2012	2011
Current income taxes		
Based on current year taxable income	4,036	(560)
Reduction (increase) in tax rates	-	(39)
Adjustment recognized for current tax of prior periods	947	59
Total current income taxes	4,983	(540)
Deferred income taxes		
Origination and reversal of temporary differences	573	(57)
Reduction (increase) in tax rates	(46)	-
Adjustment recognized for deferred taxes of prior periods	(985)	7
Total deferred income taxes	(458)	(50)
Total provision for (recovery of) income taxes	4,525	(590)

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

shown as %	2012	2011
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	2.13	1.00
	13.13	12.00

The change to the provincial tax rate was primarily due to the substantive enactment of an increase in the Manitoba provincial tax rate for credit unions.

(in thousands of Canadian dollars)

Reasons for the difference between the tax expense for the year and the expected income taxes based on the statutory rate of 13.13% (2011 – 12.00%) are as follows:

	2012	**2011**
Income (loss) before income taxes	34,952	(5,786)
Expected provision (recovery) for income taxes at statutory rates	4,589	(694)
Change in expected future tax rates		
Non-taxable items		
Other non-deductible portion of expenses/non-taxable income	(17)	39
Impact of change in tax rates	(46)	(39)
Higher tax rate applicable to subsidiary	44	37
Adjustment recognized for tax of prior periods	(38)	66
Other	(7)	1
Total provision for (recovery of) income taxes	4,525	(590)

Current income taxes recoverable (payable) as at December 31, 2012 were $(4,066) (2011 – $1,057) and have been included in other assets and accounts payable, as applicable.

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

	2012	**2011**
Deferred tax assets		
Provisions for expenditures currently not deductible for income tax purposes	226	214
Non-capital losses	-	947
Members' deposits	1,449	-
	1,675	1,161
Deferred tax liabilities		
Capital cost allowance in excess of depreciation	(584)	(585)
Intermediation pool assets	(176)	(84)
	(760)	(669)
Net deferred tax asset	915	492

The net deferred tax assets as at December 31, 2012 has been included in other assets.

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

(in thousands of Canadian dollars)

	2012	2011
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	226	214
Deferred tax assets to be recovered after more than 12 months	1,449	947
	1,675	1,161
Deferred tax liabilities		
Deferred tax liabilities to be realized after more than 12 months	(760)	(669)
Net deferred tax asset	915	492

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 13.13% (2011 – 12.00%). As a result, dividends charged against retained earnings are net of the foregoing related income tax savings of $973 (2011 - $894).

The movement in 2012 deferred tax assets and liabilities are:

2012	Opening, 2012	Recognize in Net Income	Recognize directly in Equity	Closing, 2012
Deferred tax assets				
Provisions for expenditures currently not deductible for income tax purposes	214	12	-	226
Non-capital losses	947	(1,920)	973	-
Members' deposits	-	1,449	-	1,449
Deferred tax asset	1,161	(459)	973	1,675
Deferred tax liabilities				
Capital cost allowance in excess of depreciation	(585)	1	-	(584)
Intermediation pool assets	(84)	-	(92)	(176)
Deferred tax liability	(669)	1	(92)	(760)
Net deferred tax asset (liability)	492	(458)	881	915

(in thousands of Canadian dollars)

The movement in 2011 deferred tax assets and liabilities are:

2011	**Opening, 2011**	**Recognize in Net Income**	**Recognize directly in Equity**	**Closing, 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

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, 2012 were $366 (2011 - $359). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

(in thousands of Canadian dollars)

13 Gains (losses) on financial instruments

	2012	2011
Liquidity pool investments	1,143	(818)
Members' deposits	4,710	(2,175)
Unrealized gains (losses) on non-derivative financial instruments classified as FVTPL	5,853	(2,993)
Unrealized gains (losses) on derivative financial instruments used to manage interest rate risk (note 16)	21,173	(9,079)
Net cost of derivative financial instruments used to manage interest rate risk (note 16)	(20,002)	(24,452)
Net cost and unrealized gains (losses) on derivative financial instruments	1,171	(33,531)

Derivative financial instruments are economic hedges used to manage interest rate risk associated with the Organization's investment in long term debt instruments 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 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 2012, the annual operating fee was $228 based on the Organization's share of total banking costs.

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

2013	827
2014	766
2015	779
2016	793
2017	807
Thereafter	1,065

The Organization had no outstanding letters of credit with Scotiabank as at December 31, 2012 (2011 - $1,702). These letters of credit are entered into on behalf of member credit unions and are fully indemnified.

(in thousands of Canadian dollars)

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.

The Organization has indemnified certain parties from loss related to previous ownership interests in intermediation pool assets. The Organization has determined that no provision is required.

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.

(in thousands of Canadian dollars)

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 members 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

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

(in thousands of Canadian dollars)

Organization defines investment parameters which are monitored daily to ensure compliance with policy. 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 Schedule I banks with a minimum rating of AA (Low)

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 (middle).

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%		

(in thousands of Canadian dollars)

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 a Schedule I bank which pays a fixed rate for a term not exceeding seven 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.

Liquidity pool investments by credit rating and term to maturity are as follows:

					2012
	Less than 6 months	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total**
AAA / R-1 (High)	452,237	7,126	34,734	10,857	504,954
AA / R-1 (Middle)	252,892	265,324	1,785,721	209,353	2,513,290
A / R-1 (Low)	59,420	22,822	47,220	-	129,462
	764,549	295,272	1,867,675	220,210	3,147,706

					2011
	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

In early 2013, Moody's downgraded the senior and subordinated debt of most of the Schedule I banks. As a direct result of the downgrade, $318 million of liquidity pool investments are now rated at BBB(high). The Organization continues to hold these investments pending a review of its investment policies.

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.

(in thousands of Canadian dollars)

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 cash flows of financial liabilities (excluding accounts payable) are as follows:

						2012
	Current accounts	**Less than 6 months**	**6 months to 1 year**	**1 to 5 years**	**Greater than 5 years**	**Total $**
Members' deposits	614,436	1,830,892	119,654	418,253	-	2,983,235
Derivative financial instruments	-	13,275	4,854	18,876	(1,369)	35,635
Undiscounted contractual amount of liabilities	614,436	1,844,167	124,508	437,129	(1,369)	3,018,871
Carrying value of liabilities	614,436	1,836,528	123,264	416,134	(1,231)	2,989,131

						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	-	14,115	3,844	23,883	16,774	58,616
Undiscounted contractual amount of liabilities	674,146	1,278,664	146,174	619,536	16,774	2,735,294
Carrying value of liabilities	674,146	1,286,862	137,541	605,886	14,103	2,718,538

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.

(in thousands of Canadian dollars)

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.

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	(1,598,489)	(131,279)	1,664,970	(15,917)	(80,715)
6 to 13 months	217,282	(20,722)	-	(137,714)	58,846
13 months to 2 years	134,610	-	-	(150,666)	(16,056)
2 to 3 years	502,266	(20,300)	-	(453,726)	28,240
3 to 4 years	267,538	(2,000)	-	(260,716)	4,822
4 to 5 years	493,253	(40,959)	-	(448,779)	3,515
Over 5 years	205,936	(6,188)	-	(198,400)	1,348
	222,396	(221,448)	1,664,970	(1,665,918)	-

At December 31, 2012 derivatives recorded included cross-currency swaps outstanding with a total notional value of $45,000 swapped for US dollars with a notional value of $44,053 (USD $44,332) (2011 - $84,500 swapped for USD with a notional value of $85,297 (USD $83,584)).

(in thousands of Canadian dollars)

Including the effect of the derivative financial instruments, the weighted average effective return for interest-sensitive assets is 3.39% (2011 - 3.75%) and the weighted average effective cost for interest-sensitive liabilities is 2.95% (2011 - 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 instruments. 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 swap 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 the characteristics of the Organization’s financial instruments as at December 31, 2012, the Organization estimates that an immediate and sustained 25 basis point decrease in interest rates would generate unrealized gains of $14,297 on non-derivative instruments classified as FVTPL and unrealized losses of $13,126 on derivative financial instruments while an immediate and sustained 25 basis point increase in interest rates would generate unrealized losses of $14,137 on non-derivative instruments classified as FVTPL and unrealized gains of $12,969 on derivative financial instruments.

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, 2012 was USD $31 (2011 - USD $5).

(in thousands of Canadian dollars)

As at December 31, 2012, the Organization has entered into foreign exchange forward rate agreements to buy US dollars aggregating USD $9,353 and to sell US dollars aggregating USD $8,253, inclusive of transactions with member credit unions (2011 - buy US dollars aggregating USD $8,432 and to sell US dollars aggregating USD $7,230, 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, 2012, 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 (2011 - 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 CDOR/LIBOR/Swap yield curves 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.

(in thousands of Canadian dollars)

				2012
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets - held for trading and FVTPL				
Governments	-	13,924	-	13,924
Banks or trust companies	-	2,596,646	-	2,596,646
Corporate	-	487,158	-	487,158
Derivatives	-	7,352	-	7,352
Total assets	-	3,105,080	-	3,105,080
Financial liabilities - held for trading or FVTPL				
Members' deposits	-	2,954,556	-	2,954,556
Derivatives	-	34,575	-	34,575
Total liabilities	-	2,989,131	-	2,989,131

				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

(in thousands of Canadian dollars)

17 Capital management

Capital is managed in accordance with policies established by the Board of Directors, *The Credit Unions and Caisses Populaires Act* (CUCP Act), and OSFI. The Organization has a monthly capital adequacy assessment process through which management performs an early financial statement close to assess compliance with regulated capital requirements.

Pursuant to OSFI regulations, the Organization is required to maintain a borrowing multiple of 20:1 or less. The Organization's established policy for its borrowing multiple, the ratio of debt to regulatory capital, is a 15:1 ratio. The Organization defines regulatory capital as the sum of its stated share capital and reserves reduced by assets specifically identified by OSFI's regulations. Specific reductions include future income tax assets and unrecognized losses on the Organization's held to maturity liquidity pool debt instrument portfolio.

Pursuant to CUCP Act regulations, the Organization is required to maintain a level of capital that is not less than 5% of the book value of its assets.

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

As of December 31, 2012, the Organization is in compliance with its required OSFI capital adequacy. At December 31, 2012, the Organizations' borrowing multiple is 13.32:1 (2011 - 15.17:1). The Organization filed its annual OSFI return for the year ended December 31, 2012 on February 25, 2013.

As of December 31, 2012, the Organization is in compliance with its required level of capital under the CUCP Act. As at December 31, 2012 the Organization's level of capital is 6.99% (2011 - 6.17%) of the book value of its assets.

18 Investment in Celero

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

	2012	**2011**
Assets	37,748	41,354
Liabilities	31,302	31,918
Revenues	79,971	80,515
Loss	(1,848)	(1,150)
% 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.

(in thousands of Canadian dollars)

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 $9,051 in software maintenance fees to a third party software vendor over the next three years. Celero has entered into agreements with credit unions to recover these costs through operating fees over the term of the agreement.

Pursuant to various addendums to the *Software License Agreement,* Celero is also committed to pay $4,467 in ancillary product maintenance and support fees over the next three years to the same vendor above.

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 $1,113 over the next two years.

Celero has additional obligations under various agreements for equipment, licensing, maintenance and professional fees totaling $18,165 over the next four 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	Other	Total
2013	947	468	306	685	2,406
2014	947	468	43	375	1,833
2015	947	468	-	36	1,451
2016	-	-	-	13	13
2017	-	-	-	-	-

Everlink

Celero has a 49% ownership interest in Everlink Payment Services Inc. In proportion to its 31.4% ownership interest in Celero, the Organization is indirectly liable for covenants and obligations under the following Everlink 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, 2012 and 2011, there were no draws against the line of credit or the authorized overdraft facility.

(in thousands of Canadian dollars)

19 Comparative figures

Certain comparative amounts may have been reclassified to conform to the current year’s presentation.