



**Education Credit Union Limited
Auditors' Report and
Financial Statements
September 30, 2011**



**EDUCATION
CREDIT UNION**

Personal Financial Solutions

Management's Responsibility

To the Members of Education Credit Union Limited:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

November 7, 2011

Chief Executive Officer

Financial Services Manager

EDUCATION CENTRE
6-51 Ardelet Avenue
Kitchener, ON N2C 2S9

T: (519) 742-3500
F: (519) 742-6072

TECHTOWN
103-340 Hagey Boulevard
Waterloo, ON N2L 6R6

T: (519) 772-3050
F: (519) 772-1063

CAMBRIDGE
117-73 Water Street North
Cambridge, ON N1R 7L6

T: (519) 623-2211
F: (519) 623-2051

Web: www.ecusolutions.com

Auditors' Report

**To the Members of
Education Credit Union Limited**

We have audited the accompanying financial statements of **Education Credit Union Limited**, which comprise the balance sheet as at **September 30, 2011** and the statements of income and retained earnings, other income, operating expenses and loan costs, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Education Credit Union Limited** as at **September 30, 2011** and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Cambridge, Ontario
November 7, 2011



Chartered Accountants
Licensed Public Accountants



Education Credit Union Limited
Statement of Income and Retained Earnings
Year Ended September 30, 2011

	2011	2010
Interest Income		
Personal, business and other loans	\$ 2,155,516	\$ 2,365,003
Mortgages	3,762,553	3,675,794
Lines of credit	712,430	665,098
Investments	<u>143,593</u>	<u>125,296</u>
	<u>6,774,092</u>	<u>6,831,191</u>
Interest Expenses		
Interest paid to members (note 3)	3,790,094	3,714,078
Interest paid on borrowed funds	<u>39,041</u>	<u>51,765</u>
	<u>3,829,135</u>	<u>3,765,843</u>
Interest Margin	2,944,957	3,065,348
Loan Costs (page 3)	<u>120,923</u>	<u>122,187</u>
Net Interest & Investment Income After Loan Costs	2,824,034	2,943,161
Other Income (page 2)	<u>641,658</u>	<u>615,083</u>
Gross Margin	3,465,692	3,558,244
Operating Expenses (page 3)	<u>3,761,432</u>	<u>3,429,002</u>
	(295,740)	129,242
ECU Wealth Management Expense (note 4)	<u>35,198</u>	<u>119,804</u>
Income (Loss) Before Income Taxes	(330,938)	9,438
Income Taxes (Recovered) (note 16)	<u>(47,600)</u>	<u>2,500</u>
Net Income (Loss)	(283,338)	6,938
Retained Earnings, Beginning	5,248,009	5,059,726
Acquisition of Credit Union Assets	<u>0</u>	<u>181,345</u>
Retained Earnings, Ending	<u>\$ 4,964,671</u>	<u>\$ 5,248,009</u>



Education Credit Union Limited
Statement of Other Income
Year Ended September 30, 2011

	2011	2010
Multi Service Accounts		
Service charges/fees	\$ 146,677	\$ 146,881
MasterCard interchange revenue	22,888	23,214
MasterCard gold fee	2,592	6,624
NSF fees	51,865	32,985
ABM fees	9,240	11,456
Personal cheque orders	1,594	1,961
	<u>234,856</u>	<u>223,121</u>
Lending Services		
Service charges	8,958	19,431
Disability insurance	67,667	17,360
Life insurance	25,787	27,531
PPSA registration	8,320	9,000
Automobile protection association	172	117
	<u>110,904</u>	<u>73,439</u>
Mortgage Fees and Commissions		
Administrative fees	843	0
Mortgage purchase program (note 5)	77,257	87,054
Interest penalties	74,818	124,486
Discharge fees	20,843	19,150
Renewal fees	4,175	1,790
Home security insurance	5,373	5,593
	<u>183,309</u>	<u>238,073</u>
General Fees and Commissions		
Member services	25,519	17,765
Foreign exchange	31,071	26,234
Travellers cheques	53	0
Travel insurance	2,580	2,838
Money orders	610	485
Safe deposit box rental	4,948	4,994
Income tax service	5,400	5,000
Registered Education Savings Plan	0	20
Home and auto insurance	9,327	9,913
SR&ED income	18,857	0
MasterCard credit card	14,224	13,201
	<u>112,589</u>	<u>80,450</u>
Total Other Income	<u>\$ 641,658</u>	<u>\$ 615,083</u>



Education Credit Union Limited
Statement of Operating Expenses and Loan Costs
Year Ended September 30, 2011

	2011	2010
Personnel		
Salaries	\$ 1,290,869	\$ 1,286,901
Benefits	<u>266,664</u>	<u>246,208</u>
	<u>1,557,533</u>	<u>1,533,109</u>
Occupancy		
Building and land taxes	212,508	193,637
Building amortization	49,522	49,970
Building maintenance	<u>135,114</u>	<u>71,858</u>
	<u>397,144</u>	<u>315,465</u>
Member Security Insurance		
Deposit insurance	134,254	118,229
Bonding and property insurance	<u>107,599</u>	<u>97,351</u>
	<u>241,853</u>	<u>215,580</u>
Administrative		
Marketing	104,020	86,825
Legal and audit	54,182	40,902
Data processing	418,309	378,341
Equipment amortization and maintenance	125,458	133,662
Central 1 service charges	51,598	53,330
Supplies and services	29,505	43,006
Administrative	105,721	85,592
Telephone	28,249	27,141
Postage and mailing	109,400	94,542
Credit costs	255,326	119,321
RRSP/RRIF administration fees	24,497	24,353
Electronic banking	<u>176,434</u>	<u>208,264</u>
	<u>1,482,699</u>	<u>1,295,279</u>
Organizational		
Annual meeting	12,175	14,007
Professional development	11,640	4,029
Travel and meals	18,296	6,532
Directors' expenses (note 13)	<u>40,092</u>	<u>45,001</u>
	<u>82,203</u>	<u>69,569</u>
Total Operating Expenses	<u>\$ 3,761,432</u>	<u>\$ 3,429,002</u>
Loan Costs		
Provision for impaired loans (note 7)	\$ 120,000	\$ 120,000
Collection charges	<u>923</u>	<u>2,187</u>
	<u>\$ 120,923</u>	<u>\$ 122,187</u>



Education Credit Union Limited
Balance Sheet
September 30, 2011

	2011	2010
Assets		
General Assets		
Cash and bank deposits	\$ 2,732,371	\$ 2,821,663
Investments (note 6)	10,348,598	11,394,108
Accrued interest receivable	240,297	280,244
Income taxes recoverable	47,933	0
Prepaid expenses	113,869	238,621
Other assets	<u>3,654</u>	<u>6,135</u>
	<u>13,486,722</u>	<u>14,740,771</u>
Loans To Members (note 7)		
Lines of credit	1,191,867	1,323,144
Personal	20,708,285	24,613,344
Business	7,242,722	7,884,130
MERITline	13,203,223	12,436,311
Mortgages	<u>93,006,968</u>	<u>82,305,085</u>
	<u>135,353,065</u>	<u>128,562,014</u>
Property and Equipment		
Cost		
land	170,000	0
construction in progress	439,444	0
building and improvements	935,204	935,204
leasehold improvements	544,250	610,627
furniture and equipment	<u>2,010,747</u>	<u>1,966,392</u>
	<u>4,099,645</u>	<u>3,512,223</u>
Accumulated amortization		
building	493,145	470,948
leasehold improvements	75,280	108,469
furniture and equipment	<u>1,686,415</u>	<u>1,585,334</u>
	<u>2,254,840</u>	<u>2,164,751</u>
Net book value	<u>1,844,805</u>	<u>1,347,472</u>
Total Assets	<u>\$ 150,684,592</u>	<u>\$ 144,650,257</u>



Education Credit Union Limited
Balance Sheet
September 30, 2011

2011

2010

Liabilities And Members' Equity

General Liabilities

Borrowings (note 8)	\$ 3,500,000	\$ 3,500,000
Accounts payable and accrued charges	409,417	382,516
Income taxes payable	0	58,278
Interest payable	1,803,137	1,952,402
Other liabilities	<u>3,654</u>	<u>6,135</u>
	<u>5,716,208</u>	<u>5,899,331</u>

Members' Deposits (note 9)

Demand	45,031,645	42,438,589
Guaranteed term	36,101,105	36,489,587
Registered Retirement Savings Plan	36,898,384	36,378,254
Registered Retirement Income Fund	10,299,821	10,008,606
Registered Education Savings Plan	1,420,379	1,239,547
Tax Free Savings Account	<u>6,688,658</u>	<u>4,491,053</u>
	<u>136,439,992</u>	<u>131,045,636</u>

Members' Share Capital

Membership shares (note 10)	52,610	55,690
Class B Investment Shares (note 9)	<u>3,511,111</u>	<u>2,401,591</u>
	<u>3,563,721</u>	<u>2,457,281</u>
	145,719,921	139,402,248

Commitments (note 15)

Members' Equity

Retained earnings	<u>4,964,671</u>	<u>5,248,009</u>
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Total Liabilities And Members' Equity

	<u>\$ 150,684,592</u>	<u>\$ 144,650,257</u>
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Approved on behalf of the board,


 Bryan Kaufman, Chair


 Kevin Turner, Vice Chair



Education Credit Union Limited
Statement of Cash Flows
Year Ended September 30, 2011

	2011	2010
Cash Provided By Operating Activities		
Net income (loss) for the year	\$ (283,338)	\$ 6,938
Item not affecting cash:		
Amortization of property and equipment	<u>157,082</u>	<u>166,153</u>
	<u>(126,256)</u>	<u>173,091</u>
Net change in non-cash operating capital items affecting operations		
Decrease (increase) in accrued interest receivable	39,947	(31,756)
Decrease in prepaid expenses	124,752	21,034
Decrease in other assets	2,481	13,178
Increase in accounts payable and accrued charges	26,901	38,846
(Increase) decrease in income taxes	(106,211)	123,305
Decrease in interest payable	(149,265)	(114,533)
Decrease in unearned revenue	0	(2,157)
Decrease in other liabilities	<u>(2,481)</u>	<u>(13,178)</u>
	<u>(63,876)</u>	<u>34,739</u>
	<u>(190,132)</u>	<u>207,830</u>
Cash Used For Investing Activities		
Increase in loans to members	(6,791,051)	(9,301,013)
(Increase) decrease in investments	1,045,510	(666,721)
Acquisition of credit union assets	0	181,345
Purchase of property and equipment	<u>(654,415)</u>	<u>(133,837)</u>
	<u>(6,399,956)</u>	<u>(9,920,226)</u>
Cash Provided By Financing Activities		
Decrease in term borrowings	0	(4,552,841)
Increase in members' deposits	5,394,356	16,398,813
Increase in members' share capital	<u>1,106,440</u>	<u>112,211</u>
	<u>6,500,796</u>	<u>11,958,183</u>
Increase (decrease) in cash	(89,292)	2,245,787
Cash Position, Beginning of Year	<u>2,821,663</u>	<u>575,876</u>
Cash Position, End of Year	<u><u>\$ 2,732,371</u></u>	<u><u>\$ 2,821,663</u></u>
Supplementary Information		
Income taxes paid (recovered)	\$ 58,611	\$ (120,805)
Interest paid	\$ 3,978,400	\$ 3,880,376



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

1. Nature of Business

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act of Ontario, (the "Act") and is a member of the Deposit Insurance Corporation of Ontario ("DICO") and is affiliated with Central 1 Credit Union ("Central 1"). The Credit Union has 3 branches in southwestern Ontario.

2. Significant Accounting Policies

Basis Of Presentation

The financial statements of the Credit Union have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and legislation for Ontario's Credit Unions and Caisses Populaires. The significant accounting policies used in the preparation of these financial statements conform to Canadian GAAP.

Regulations to the Act specify that certain items are required to be disclosed in the financial statements that are presented at annual meetings of members. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

The Credit Union utilizes the following significant Canadian generally accepted accounting principles, methods and procedures in the preparation of these financial statements:

Effective Interest Method

Interest income and expense are recognized in the Statement of Income and Retained Earnings using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes transaction costs and discounts or premiums that are an integral part of the effective interest rate.

Fees

Unless included in the effective interest calculation, fees are recognized on an accrual basis as the service is provided and reported on the Statement of Income and Retained earnings as Other Income.

Unearned Revenue

Unearned revenue relates to insurance premiums on members' loans received upon the issuance of funds to members. The revenue is amortized and recognized in income on the same basis as the principal reduction of members' loans.



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

2. Significant Accounting Policies (continued)

Use Of Significant Accounting Estimates

The preparation of the Credit Union's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from such estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the year in which they become known.

Cash And Cash Equivalents

The term cash and cash equivalents as used in these financial statements consists of cash on hand.

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

Property And Equipment

Property and equipment are stated at cost. Amortization has been provided in the accounts on the diminishing balance basis as follows:

Building and improvements	4%
Leasehold improvements	5%
Furniture and equipment	20% - 100%

Long-Lived Assets

Amortization of property and equipment in the year of acquisition is provided at one half of the normal rates.

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Credit Union performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from their use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in income for the year.

Quoted market prices, prices for similar items, or discounted cash flows are used to measure fair value of long-lived assets, depending on the availability of information.



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

2. Significant Accounting Policies (continued)

Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair market value at inception of the lease. Assets under capital leases are amortized on the straight-line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

Derivative Instruments

From time to time, the Credit Union enters into equity-linked purchase options to manage exposure to interest rate and other market risks. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposures, the Credit Union determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge or a cash flow hedge of a specifically identified group of assets or liabilities. The Credit Union also formally assesses and documents, both at the inception and over the term of the hedge, whether these derivatives are highly effective in offsetting changes in fair values or cash flows of hedged assets or liabilities.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or is terminated. The fair value of the derivative is recognized in assets or liabilities at that time and the gain or loss is deferred and recognized in net interest income in the periods that the hedge items affect net earnings. Hedge accounting is also discontinued on the sale or termination of the hedged item. The fair value of the derivative is recognized in assets or liabilities at that time and the gain or loss is deferred and recognized in net interest income.

Derivatives that no longer qualify for hedge accounting are carried at fair value on a gross basis in assets and liabilities with changes in fair value recorded in other income.

Equity-linked purchase options are used to reduce the exposure to stock market fluctuations in the return associated with Equity-Linked Deposit products issued to members.

Loans To Members

Loans to members are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans (and/or at the discounted future value of the loan's security, net of expected selling costs). When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

Interest is accounted for on the accrual basis for all loans other than impaired loans.



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

2. Significant Accounting Policies (continued)

A loan is classified as impaired when a specific provision has been established or a write-off taken or when, in the opinion of management, there is a reasonable doubt as to the ultimate collectibility of principal or interest. A loan is also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days. Once a loan is classified as impaired, all previously accrued interest in excess of 90 days is reversed and charged against current income.

Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

Allowance For Impaired Loans

The allowance for impaired loans is maintained in an amount considered adequate to absorb estimated credit-related losses in the loan portfolio. The allowance for impaired loans reflects management's best estimate of the losses existing in the loan portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for impaired loans currently recognized. The allowance for impaired loans consists of specific provisions and a general provision, each of which is reviewed on a regular basis. The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs net of recoveries.

Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss. The specific provision is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount, which is generally the fair value of any security underlying the loan, net of expected costs of realization.

The general provision is established to absorb any potential credit losses and is determined through analysis of economic developments and current portfolio trends for credit losses. When losses can be attributed to individual loan facilities, specific provisions are recorded.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

Member Shares

Shares are classified as liabilities or as members' equity, according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Board of Directors of the Credit Union, the shares are classified as equity.

Dividends on shares classified as liabilities are charged to earnings, while dividends on shares classified as equity are charged to retained earnings on the date at which the distributions are declared payable by the Credit Union's Board of Directors.



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

2. Significant Accounting Policies (continued)

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in other income for the year.

Income Taxes

The liability method of income tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Financial Instruments

Section 3855 established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are initially recognized on the balance sheet at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Held for Trading:

Held for trading financial assets & liabilities are purchased for sale in the near term and whose fair value can be reliably measured on initial recognition. Held for trading financial instruments are carried at fair value with all gains and losses recognized immediately in net income. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union has classified the following financial assets and liabilities as held for trading: cash and bank deposits.

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transactions costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized immediately in income.

Available-for-sale:

Available for sale financial assets include assets which may be sold in response to, or in anticipation of, changes in interest rates and repayment risk, or to meet liquidity needs. Available for sale assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until the financial asset is sold or derecognized, at which time the cumulative gain or loss is transferred to other income. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union has classified the following financial assets as available for sale: investment in Central 1 term deposit and liquidity reserve.



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

2. Significant Accounting Policies (continued)

Available-for-sale financial assets are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost. Net gains and losses arising from changes in fair value include interest and dividend income. These gains and losses, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

Loans to Members and Receivables:

Loans to members and receivables include assets that have the characteristics of loans to members and receivables. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income. The Credit Union has classified the following financial assets as loans to members and receivables: accounts receivable, accrued interest receivable and loans receivable (including any related party transactions).

Loans to members and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition or impairment.

Held to Maturity:

Held to maturity financial assets are securities that the Credit Union has the intention and ability to hold until their maturity date. These assets are initially measured at fair value with gains and losses recognized in net income when the asset is derecognized or impaired. Any impairment write downs and foreign exchange translation adjustments are recognized immediately in net income. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union has classified the following financial assets as held to maturity: liquidity deposits and shares of Central 1 Credit Union ("Central").



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

2. Significant Accounting Policies (continued)

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition or impairment.

Other Financial Liabilities:

Other financial liabilities include liabilities that have not been classified as held for trading. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income. The Credit Union has classified the following financial liabilities as other financial liabilities: accounts payable and accrued charges, accrued interest payable, membership shares and Class B Investment shares.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition.

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. For the Credit Union, financial statements, including comparative information, the transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year ending September 30, 2012.

Upon transition to IFRS, IFRS 1 First-time Adoption of International Financial Reporting Standards provides exemptions from full or partial retrospective application of certain IFRSs if management of the Credit Union elects to use such exemptions. In addition, IFRS 1 details mandatory exceptions to retrospective application of certain standards. The following are transitional arrangements as permitted by IFRS 1 on changeover to IFRS, for which management has elected to adopt:

Exemptions:

- The Credit Union has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations effected prior to October 1, 2011.



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2. Significant Accounting Policies (continued)

- The Credit Union has elected to designate under IAS 39 Financial Instruments previously recognized financial assets and liabilities at fair value through profit or loss (held-for-trading) at the date of transition.
- The Credit Union will apply the classification provisions of IFRIC 2 Members' Shares in Co-operative Entities whereby equity/patronage shares are classified based on their characteristics of prohibition of redemption which leads to a transfer between financial liabilities and equity.
- The Credit Union will apply the incurred loss model as required under IFRS 7 Financial Instruments Disclosure and IAS 39 Financial Instruments whereby the determination of provisions related to loan loss are based upon a triggering event.

At September 30, 2011, the International Accounting Standards Board (IASB) had a number of projects underway that could have a significant impact on the Credit Union's financial position, results and cash flows upon initial adoption of IFRS. These potential changes and impacts have been disclosed below.

- Financial instruments: classification and measurement – The IASB issued an exposure draft that proposes that financial instruments be classified into one of two categories: amortized cost or fair value. They will be classified based on instrument characteristics and how the instrument is managed. Classifications made on initial recognition are irrevocable.
- Financial instruments: amortized cost and impairment – The IASB issued an exposure draft that proposes a new standard on amortized cost measurement and impairment of financial assets to replace the corresponding requirements in IAS 39 Financial Instruments: Recognition and Measurement. The new standard will replace the incurred loss model currently used to recognize and measure impairment of financial assets with an expected loss model that would recognize impairment sooner.

3. Interest Paid to Members

	2011	2010
Demand deposits	\$ 389,406	\$ 306,659
Term deposits	1,421,733	1,482,830
Registered savings plans	1,463,792	1,415,081
Registered income funds	405,672	405,097
Class B investment shares	109,491	104,411
	<u>\$ 3,790,094</u>	<u>\$ 3,714,078</u>



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4. ECU Wealth Management

The net expense to the Credit Union for providing various investments and insurance services to the membership amounted to \$35,198 (2010 - \$119,804). These services are provided through Credential Financial Strategies, Credential Asset Management and Credential Securities. At September 30, 2011, the portfolio balance managed by the Credential Group of Companies amounted to \$42,861,716 (2010 - \$43,802,042).

5. Other Income

Included in other income are commissions earned through a mortgage purchase program with Concentra Financial. These mortgages are not included in the Credit Union's financial statements as the funds are held by a third party.

At September 30, 2011, the outstanding principal in the mortgage purchase program amounted to \$16,888,551 (2010 - \$22,622,716) and commissions earned for the year and included in other income amounted to \$77,257 (2010 - \$87,054).

6. Investments

	2011	2010
Central 1 Credit Union		
shares	\$ 960,965	\$ 940,567
liquidity reserve	<u>8,960,176</u>	<u>10,020,035</u>
	9,921,141	10,960,602
CUCO Co-operative Association shares	427,457	0
ABCP LP	<u>0</u>	<u>433,506</u>
	\$ 10,348,598	\$ 11,394,108

A Liquidity Reserve Deposit equal to 6% (2010 - 7%) of the Credit Union's total assets at each calendar quarter end is a condition of membership in Central 1. These Liquidity Reserve Deposits consist of three fixed rate investments due within two years, bearing interest at an average rate of 1.12% (2010 - 1.18%). At maturity, these deposits are reinvested at market rates for various terms. The carrying value of the liquidity reserve and shares of Central 1 approximates market value.



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6. Investments (continued)

At a special general meeting held on May 31, 2008, members of Credit Union Central of Ontario (CUCO) approved a resolution to facilitate a sale of CUCO to Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1 Credit Union ("Central 1"). Prior to the sale, members of Credit Union Central of Ontario were required to hold an investment equal to 0.80% of a Credit Union's total assets in CUCO shares to remain a member in good standing. These shares were converted into new Class A and Class E shares with Central on December 31, 2008.

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership ("ABCP LP"), to acquire these investments funded by member Credit Unions in proportion to their share investment in CUCO. The ABCP was subject to a restructuring process that replaced the original short-term ABCP with various classes of long-term notes. The notes bear a variety of interest rates between 0% and 5% with most floating with a premium or discount to the Bankers' Acceptance rate.

CUCO Co-operative Association ("CUCO Co-op") shares

Effective on August 17, 2011, a restructuring took place, resulting in the discontinuance of CUCO and its continuance as CUCO Co-operative Association ("CUCO Co-op"). Credit Unions that were members of CUCO are now members of CUCO Co-op and the interest membership shares in the previous organization are now membership shares of CUCO Co-op.

On August 31, 2011, the assets of ABCP 2008 Limited Partnership were transferred to CUCO Co-op, in exchange for its Class B investment shares. On September 2, 2011, ABCP 2008 Limited Partnership distributed to each member Credit Union its proportionate share of CUCO Co-op Class B investment shares.

As at August 31, 2011, the principal characteristics of the notes were estimated, including the interest rate, maturity date and credit rating. The yield that a potential investor would require to purchase each class of notes was also estimated. This information was then used to calculate a fair value for each class of notes. Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

Although there has been some trading activity in the notes held by ABCP LP, it is felt that an active market on which a fair value could be based has not been established for the following reasons: there are only a small number of brokers and buyers; transactions are not regularly occurring; there is a very wide difference between bid and ask values and final prices are negotiated; and relative to a discounted cash flow value, sales are occurring on a distressed basis. The Credit Union carries its investment in CUCO Co-op Class B investment shares at cost which approximates the estimated fair value of the previously held units of the ABCP 2008 Limited Partnership at August 31, 2011. Actual amounts realized may differ from such estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.



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7. Loans to Members

Member loans have either a fixed or variable rate of interest and mature within five years. The interest rate on variable rate loans at September 30, 2011 ranged from 2.10% to 16.50% (2010 - 3.00% to 16.50%). The rate on a loan is determined by the size of the loan, the type of security offered, the member's credit worthiness and the range of services the member utilizes at the Credit Union. The net carrying value of variable rate loans to members approximates their fair value.

The interest rate offered on fixed rate loans on September 30, 2011 ranged from 2.04% to 16.25% (2010 - 2.04% to 16.25%). The rate offered to a particular member varies for reasons similar to variable loans along with the length of term of the loan. The fair value of fixed rate loans is not practicable to determine. The loans to members are recorded at cost which approximates amortized cost.

Residential mortgages are secured by residential property and generally are repayable in weekly, biweekly or monthly blended payments of principal and interest. Included in mortgages are CMHC insured mortgages totaling \$35,927,737 (2010 - \$31,923,258).

Personal loans consist of term loans and lines of credit and as such have various terms of repayment. Some of the personal loans are secured by wage assignments and personal property or investments and others are secured by wage assignments only.

The loans to members had the following maturity dates as at year end:

	<u>2011</u>	<u>2010</u>
Variable rate	\$ 14,550,189	\$ 14,696,457
Fixed rate due:		
Within one year	25,884,376	19,887,672
One to two years	15,943,394	12,387,874
Two to three years	23,018,268	22,162,347
Three to four years	24,180,220	29,206,928
Four to five years	<u>31,502,668</u>	<u>29,591,737</u>
	135,079,115	127,933,015
Greater than five years	<u>273,950</u>	<u>628,999</u>
	<u>\$ 135,353,065</u>	<u>\$ 128,562,014</u>



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7. Loans to Members (continued)

Provision For Losses

The provision for losses on personal loans is calculated on an individual account basis and complies with the requirements set out in the Deposit Insurance Corporation of Ontario (DICO) By-law #6.

	<u>2011</u>	<u>2010</u>
Balance, Beginning	<u>\$ 273,568</u>	<u>\$ 212,468</u>
Add		
Provision charged to operations	120,000	120,000
Increase in allowance, net of recoveries	<u>33,761</u>	<u>157,285</u>
	<u>153,761</u>	<u>277,285</u>
	427,329	489,753
Less		
Loans written off	<u>198,693</u>	<u>216,185</u>
Balance, Ending	<u>\$ 228,636</u>	<u>\$ 273,568</u>

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	1-30 days	31-60days	60-90 days	91 days and greater	Total
Residential mortgages	-	423,265	298,095	-	721,360
Personal loans	<u>-</u>	<u>43,140</u>	<u>11,123</u>	<u>-</u>	<u>54,263</u>
	<u>-</u>	<u>466,405</u>	<u>309,218</u>	<u>-</u>	<u>775,623</u>

The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance, mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the loans past due but not impaired.



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8. Borrowings

Term loans are payable to Central 1 with maturity dates ranging from October 7, 2011 to November 4, 2011, bearing interest rates averaging 1.46% (2010 - 1.52%), secured by an assignment of book debts.

The Credit Union has assigned its book debts and signed a general security agreement related to the credit facility of \$13,201,000 with Central 1 (2010 - \$13,201,000).

9. Members' Deposits

Demand deposits are repayable on demand and bear interest at variable rates ranging from 0.05% to 1.40% (2010 - 0.05% to 1.60%) at September 30, 2011. Interest on the variable rate deposits is generally calculated daily and paid on the accounts monthly. CU Bonds bear interest at a fixed rate of interest of 1.25% for 2011 (2010 - 1.05%) and is paid yearly.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or upon maturity. The interest rates offered on term deposits issued on September 30, 2011 range from 0.75% to 6.00% (2010 - 1.25% to 5.25%).

Registered Savings Plans (RRSP's, RESP's, TFSA's) and Registered Income Funds (RRIF's) can have a fixed or variable rate. The fixed rate amounts have terms and rates similar to the term deposit accounts described above. The variable rate amounts bear interest ranging from 0.15% to 1.20% (2010 - 0.15% to 1.25%) at September 30, 2011.

The carrying value of all variable rate deposits approximates their fair value. The fair value of fixed rate deposits is not practicable to determine. Members' deposits are recorded at cost which approximates amortized cost.

Members' deposits and Series 97 Class B Investment Shares and Series 03 Class B Investment Shares are due as follows:

	2011	2010
Variable rate	\$ 51,189,572	\$ 46,873,332
Fixed rate with maturities:		
Within one year	27,512,749	31,849,297
Between one to two years	23,193,590	14,114,110
Between two to three years	14,157,115	19,401,292
Between three to four years	16,064,694	12,944,173
Between four to five years	7,833,383	8,265,023
	<u>\$ 139,951,103</u>	<u>\$ 133,447,227</u>



Education Credit Union Limited
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9. Members' Deposits (continued)

Class B Investment Shares

The carrying value of Class B Investment Shares approximates market value. The Credit Union has paid an amount for regular dividends at the rate of 3.78% (2010 - 4.55%) for Series 97 Class B Investment Shares and at the same rate (2010 - 4.55%) for Series 03 Class B Investment Shares.

On March 29, 2011, the Credit Union issued one million Series 10 Class B Investment Shares and paid an amount for a pro-rated dividend at the rate of 3.72%.

Class B Investment Shares may be redeemed in any fiscal year, after the first five years subsequent to issuance, to the extent of 10% of the total Class B Investment Shares outstanding at the end of the previous fiscal year, or after the death of the shareholder.

Members' Deposits In Trust

Concentra Financial is the trustee for the Registered Retirement Savings Plan, the Registered Retirement Income Fund, the Registered Education Savings Plan and Tax Free Savings Account offered to members. Under our agreement with the company, members' contributions to the plan, as well as income earned on it, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or the parties designated by them, by the Credit Union on behalf of the company.

10. Membership Shares

Each member is required to hold one share with a par value of \$5. The Credit Union had 10,522 (2010 - 11,138) members as at September 30, 2011.

11. Capital Management

The Credit Unions and Caisses Populaires Act prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules are based on the Basel II framework, consistent with the financial industry in general.

Under this approach, Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 100% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by DICO. Regulatory standards require Credit Unions to maintain a minimum total regulatory capital to risk-weighted assets of 8% and a minimum to total assets of 4%.



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September 30, 2011

11. Capital Management (continued)

Tier 1 capital is defined as a Credit Union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes reserves, membership shares and 90% of Class B Investment Shares.

Tier 2 capital of the Credit Union includes general allowance for credit losses and 10% of Class B Investment Shares.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares DICO regulatory standards to the Credit Union's board policy for 2011:

	Regulatory Standards	Board Minimum Limits
Total regulatory capital to risk weighted assets	8%	10%
Total regulatory capital to total assets	4%	5%

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	<u>2011</u>	<u>2010</u>
Capital summary		
Regulatory capital		
Total tier 1 capital	\$ 8,177,281	\$ 7,465,131
Total tier 2 capital	<u>427,201</u>	<u>422,362</u>
Total regulatory capital	<u>\$ 8,604,482</u>	<u>\$ 7,887,493</u>
Risk-weighted assets		
Total regulatory capital to risk-weighted assets	<u>14.82%</u>	<u>13.69%</u>
Total tier 1 capital to total assets	<u>5.43%</u>	5.16%
Total tier 2 capital to total assets	<u>0.28%</u>	<u>0.29%</u>
	<u>5.71%</u>	<u>5.45%</u>

Capital management is the process whereby the level of capital is determined to support operations, risks and growth.

The Credit Union uses different management processes to manage capital risk.

A capital management framework is included in policies and procedures established by the Board of Directors. In addition, DICO establishes standards to which the Credit Union must comply.



Education Credit Union Limited
Notes to the Financial Statements
September 30, 2011

11. Capital Management (continued)

The primary capital policies and procedures include the following:

- Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk)
- Co-ordinate strategic risk management and capital management
- Develop financial performance targets/budgets/goals
- Develop a planned growth strategy that is coordinated with capital growth
- Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union

12. Derivative instruments

Equity-linked deposits

The Credit Union has \$26,749 (2010 - \$101,310) of Index-Linked Term Deposit products outstanding to its members. These term deposits have a maturity of five years and pays interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has entered into agreements with Central 1 to offset the exposure to the indices associated with these products. The Credit Union pays a fixed amount on the face value of these term deposit products. At the end of the term, the Credit Union receives from the counterparties payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have fair values that vary based on the particular contract and changes in interest rates. The current replacement cost of these contracts amount to \$30,403 (2010 - \$107,445) at year end.

13. Board of Directors

2011

2010

a) Remuneration

The directors received remuneration and expense reimbursement as follows:

Honorarium	\$ 20,007	\$ 28,209
Group Insurance	416	1,954
Education	16,054	11,257
Travel/Meetings	3,615	3,581
	<u>\$ 40,092</u>	<u>\$ 45,001</u>



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13. Board of Directors (continued)

b) Related Party Transactions

The loans and mortgages to directors, officers and dependent relatives were granted under the same terms and conditions as loans and mortgages to other members. There was no allowance for doubtful accounts required in respect of these loans. Loans and mortgages to directors, officers and dependent relatives are as follows:

	<u>Loans</u>	<u>(#)</u>	<u>Mortgages</u>	<u>(#)</u>
Balance, beginning	\$ 165,527	(8)	\$ 1,499,483	(9)
Advances	<u>56,840</u>	(5)	<u>731,191</u>	(3)
	222,367		2,230,674	
Repayments	<u>109,437</u>	(4)	<u>429,832</u>	(6)
Balance, ending	<u>\$ 112,930</u>	(9)	<u>\$ 1,800,842</u>	(6)

14. Financial Instruments

As part of its operations, the Credit Union carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

As part of its operations, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

The Credit Union's risk management policies and procedures are consistent with the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union;
- Balance risk and return;
 - Manage credit, market and liquidity through preventative and detective controls;
 - Ensure credit quality is maintained;
 - Ensure credit, market, and liquidity is maintained at acceptable levels;
 - Diversify risk in transactions, member relationships and loan portfolios;
 - Price according to risk taken; and
 - Use consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the following:

- Audit Committee
- Finance & Credit Committee



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Notes to the Financial Statements
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14. Financial Instruments (continued)

The risk policies, procedures and objectives have not changed materially from the prior year.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on investments. Credit management also involves managing activities where reliance is placed on loan repayment from a third party.

The Credit Union uses different risk management processes for its retail credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid.

Management of credit risk is established in policies and procedures by the Board of Directors. In addition, DICO establishes standards to which the Credit Union must comply.

The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements;
 - Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge; and
 - Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security.
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual and/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector;
 - If a number of members are engaged in similar activities in the same geographic region, they will be affected by similar economic, political or other conditions.
- Limits on types of credit facilities and services offered;
- Internal loan approval processes;
- Loan documentation standards;
- Loan re-negotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.



Education Credit Union Limited
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September 30, 2011

14. Financial Instruments (continued)

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Documentary and commercial letters of credit are instruments issued on behalf of a member authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the member and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The Credit Union has made commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans.

In the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the balance sheet. The amounts reported below represent the maximum credit exposure to the Credit Union. Many of these contracts will expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at September 30, 2011, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2011	2010
Undrawn lines of credit	\$ 20,472,152	\$ 18,908,950
Commitments to extend credit	1,104,874	5,598,455
Total	<u>\$ 21,577,026</u>	<u>\$ 24,507,405</u>



Education Credit Union Limited
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14. Financial Instruments (continued)

Fair value of financial instruments

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

Methods and assumptions:

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

- (a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value.
- (b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.
- (c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
- (d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

Financial Assets:

Held for Trading:

Cash

The carrying value of cash and cash equivalents is approximated by its fair value due to its short-term nature.

Investments

Investments are recorded at their fair value. Fair value is determined by reference to published bid price quotations in an active market. Where such quoted market prices are not available, fair value is estimated by reference to the current fair value of another instrument having substantially the same terms, conditions and risk characteristics.



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14. Financial Instruments (continued)

Available-for-Sale:

Investments

Except for investments in equity instruments for which a quoted market price is not available, which are recorded at cost, long term investments are recorded at their fair value. Fair value is determined by reference to published bid price quotations in an active market. Where such quoted market prices are not available, fair value is estimated by reference to the current fair values of another instrument having substantially the same terms, conditions and risk characteristics. The fair value of investments is discussed in note 6.

Held to Maturity:

Loans and Receivables:

Loans

Long-term loans receivable are recorded at their amortized cost. The net carrying value of variable loans to members approximates their fair value. The fair value of fixed rate loans is not practicable to determine.

Financial Liabilities:

Other Financial Liabilities:

Deposits

Deposits are recorded at their amortized cost. The net carrying value of variable members' deposits approximates their fair value. The fair value of fixed rate members' deposits is not practicable to determine.

Accounts payable

The carrying value of the Credit Union's accounts payable is approximated by its fair value, due to its short-term nature.

Membership shares/Class B Investment Shares

Membership shares are recorded at their amortized cost. The carrying value of the Credit Union's membership shares is approximated by its fair value.

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union exposure changes depending on market conditions.

The Credit Union uses different risk management processes to manage market risk.



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14. Financial Instruments (continued)

Management of market risk is established in policies and procedures established by the Board of Directors. In addition, DICO establishes standards to which the Credit Union must comply.

The primary market risk policies and procedures include the following:

- Interest rate risk management framework to measure and control interest rate exposure;
 - Identify significant interest rate risk, including repricing risk and interest spread risk
 - Utilize sensitivity tools to measure various risk positions and evaluate their possible impact
 - Develop products and services, and related pricing to ensure consistent net interest margins and profitability
- Investment and derivative management to measure and control on and off balance sheet assets to ensure investment objectives are met;
 - Established standards for safety, liquidity and yield
 - Limits on eligible investments
 - Limits on investment concentrations
 - Limits on investment term to maturity
 - Limits on the use of derivative products
 - Controls on securities dealers utilized
 - Limits on real property and equipment for the Credit Union's use
 - Processes that identify adverse situations and trends.

Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. It arises primarily from timing differences in the repricing of investments as they mature. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield.



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14. Financial Instruments (continued)

The table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates.

Financial instruments exposed to interest rate risk:

(In thousands)

							2011	2010
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest Sensitive	Total	Total
Financial Assets								
Cash	2,359	-	-	-	-	373	2,732	2,822
Investments	-	8,681	-	279	-	1,388	10,348	11,394
Accrued interest receivable	-	-	-	-	-	240	240	280
Loans	<u>27,754</u>	<u>1,866</u>	<u>10,817</u>	<u>94,638</u>	<u>278</u>	<u>-</u>	<u>135,353</u>	<u>128,562</u>
Total	<u>30,113</u>	<u>10,547</u>	<u>10,817</u>	<u>94,917</u>	<u>278</u>	<u>2,001</u>	<u>148,673</u>	<u>143,058</u>
Financial liabilities								
Borrowings	-	3,500	-	-	-	-	3,500	3,500
Accounts payable	-	-	-	-	-	413	413	2,399
Interest payable	-	-	-	-	-	1,803	1,803	-
Deposits	39,081	11,232	13,563	61,220	25	11,319	136,440	131,046
Membership Shares	<u>-</u>	<u>3,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53</u>	<u>3,564</u>	<u>2,457</u>
Total	<u>39,081</u>	<u>18,243</u>	<u>13,563</u>	<u>61,220</u>	<u>25</u>	<u>13,588</u>	<u>145,720</u>	<u>139,402</u>

The above schedules do not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

The following table identifies the estimated potential before tax impact of a 1% increase or decrease in interest rates on net interest income, assuming no new derivative products are utilized. The Credit Union uses simulation modeling to simulate the effect of a change in the market rate of interest. The amounts are based upon management's assumptions, are at a point in time, and may change as a result of actions taken by the Credit Union, and market conditions:

	2011	2010
Before tax impact of 1% increase in rates	(\$21,000)	\$111,000
Before tax impact of 1% decrease in rates	(\$14,000)	\$111,000



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14. Financial Instruments (continued)

Liquidity risk

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union's day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk.

Management of liquidity risk is established in policies and procedures established by the Board of Directors. In addition, DICO establishes standards to which the Credit Union must comply.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure
- Maintain sufficient liquid assets to meet normal operating requirements
- Utilize Central 1 as the manager of the Ontario provincial liquidity program; including maintaining DICO regulated liquidity investments
- Maintain a line of credit with Central 1 Credit Union
- Daily management of liquidity, which factors in known and projected inflows/outflows
- Maintain sufficient liquid assets that can be readily converted to cash with minimal or no cost
- Maintain liquid assets in excess of normal operating requirements
- Diversification in investing to ensure various sources of funding liquidity can be maintained
- Liquidity management contingency planning

The Credit Union enters into transactions to borrow funds from financial institutions or other creditors and lease office equipment from various creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from its accounts payable and loans payable by investing in liquid assets.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union maintains foreign cash balances to approximately offset deposits held in foreign funds.

Other legal and regulatory risk

Legal and regulatory risk is the risk that the Credit Union has not complied with requirements set out in terms of compliance with standards of sound business practice, anti-money laundering legislation or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the Credit Union has established policies and procedures and monitors to ensure ongoing compliance.



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14. Financial Instruments (continued)

Current year fair value hierarchy

The financial instruments measured at fair value on the balance sheet have been classified in the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial assets			
Cash and bank deposits	\$ 2,732,371	\$ 0	\$ 0
Investments	0	10,348,598	0

Prior year fair value hierarchy

The financial instruments measured at fair value on the balance sheet have been classified in the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial assets			
Cash and bank deposits	\$ 2,821,663	\$ 0	\$ 0
Investments	0	11,394,108	0

The fair value of financial instruments traded in active markets is obtained by reference to quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques which use market-based inputs, where available or non market based inputs.

Level 1 financial instruments represents instruments measured at fair value using unadjusted market prices for identical assets or liabilities.

Level 2 reflects instances where observable market inputs other than quoted market prices are used price instruments.

Level 3 reflects financial instruments that are measured at fair value with significant inputs based upon an entity's own internally generated assumptions in the valuation model.

15. Commitments

a) Data Processing

The Credit Union has a signed contract for data processing facilities expiring in December 2016. Data processing charges are charged on a per member basis and amounted to \$260,213 for 2011 (2010 - \$248,220).



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15. Commitments (continued)

b) Lease Commitments

Payments on building leases to various dates as late as December 2016, amount to \$678,498. Furthermore, the Credit Union is required to pay its share of certain operating expenses incurred. The aggregate minimum lease payments for the next six years are as follows:

2012	\$ 119,262
2013	131,585
2012	131,585
2013	131,585
2016	131,585
2017	<u>32,896</u>
	<u>\$ 678,498</u>

c) Property and Equipment Commitments

The Credit Union entered into agreements for the purchase of property and equipment totaling approximately \$506,000.

16. Income Taxes

2011

2010

The Credit Union's provision for income taxes is comprised of the following:

Federal and provincial income taxes at a combined tax rate of 15.50% (2010 - 15.50%)	\$ (51,295)	\$ 1,464
Difference in income taxes resulting from:		
Capital cost allowance in excess of amortization expense	0	(5,600)
Amortization expense in excess of capital cost allowance	1,715	0
Amounts not deductible for tax purposes	254	263
Difference in allowance for doubtful loans for accounting and tax purposes	1,860	948
Other	(134)	5,425
	<u>\$ (47,600)</u>	<u>\$ 2,500</u>

The financial statements reflect the benefit of tax reductions through the application of a loss carried forward against future years' earnings of approximately \$122,400 which expires in 2031.



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17. Market segment information

The Credit Union operates principally in personal and commercial banking in Ontario. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of members and the nature of the regulatory environment.

The Credit Union conducts its principal operations through various branches, all of which offer products and services including deposit business, individual lending and independent business and commercial lending. The deposit business market segment provides a wide range of deposit and investment products and sundry financial services to all members. The lending business market segments provide a variety of credit products and services designed specifically for each particular group of borrowers. Other business is comprised of business of a corporate nature such as investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

18. Other Information

Amortization expense for the year amounted to \$157,082 (2010 - \$166,153).

19. Comprehensive Income

On October 1, 2006, the Credit Union adopted the new financial instruments section of the CICA Handbook. There were no transition adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value which would have been recognized in opening retained earnings or opening accumulated other comprehensive income as at October 1, 2006 as the adjustments were not considered significant to these financial statements.

Management has reviewed the financial instruments sections and determined there is no material impact on the current year's results of operations.

20. Comparative Figures

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.