

**Sunova Credit Union
Limited**

Consolidated Financial Statements
December 31, 2012



April 5, 2013

Independent Auditor's Report

To the Members of Sunova Credit Union Limited

We have audited the accompanying consolidated financial statements of Sunova Credit Union Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of net income and comprehensive income, changes in 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 audits 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 Sunova Credit Union Limited as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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Sunova Credit Union Limited
 Consolidated Statement of Financial Position
 As at December 31, 2012

	2012 \$	2011 \$
Assets		
Cash on hand	4,961,804	4,848,494
Investments and deposits (note 8)	76,021,048	106,191,613
Members' loans - net of allowance for doubtful loans (note 9)	766,699,246	638,155,812
Other assets (note 13)	1,373,792	1,173,594
Investments in associates (note 22)	8,700,827	7,056,048
Investment property (note 12)	12,001,961	11,187,000
Property and equipment (note 10)	34,155,647	36,372,788
Intangible assets (note 11)	1,216,157	1,389,826
Goodwill	2,333,144	2,333,144
	907,463,626	808,708,319
Liabilities		
Members' savings and deposits (note 14)	822,439,136	750,987,621
Accounts payable and accrued liabilities (note 16)	3,657,486	2,613,061
Income taxes payable (note 19)	150,969	112,888
Loans payable (note 15)	18,001,519	-
Deferred income tax liabilities (note 19)	1,623,150	1,720,500
	845,872,260	755,434,070
Members' Equity (note 17)		
Members' shares (note 18)	23,698,294	18,004,819
Retained surplus	37,893,072	35,269,430
	61,591,366	53,274,249
	907,463,626	808,708,319

Approved by the Board of Directors

_____ Director _____ Director

The accompanying notes are an integral part of these consolidated financial statements.

Sunova Credit Union Limited

Consolidated Statement of Net Income and Comprehensive Income

For the year ended December 31, 2012

	2012 \$	2011 \$
Income		
Interest from members' loans	31,649,833	28,782,799
Investment income	2,006,169	1,394,656
	<hr/> 33,656,002	<hr/> 30,177,455
Cost of funds		
Interest paid to members	16,245,430	14,308,705
Interest on loans payable	5,447	992,630
	<hr/> 16,250,877	<hr/> 15,301,335
Financial margin	17,405,125	14,876,120
Recovery of (provision for) doubtful loans	(1,289,040)	1,853,235
Other income	6,491,103	5,781,282
Net gains on fair value adjustments of investment property (note 12)	43,871	31,735
	<hr/> 22,651,059	<hr/> 22,542,372
Net interest and other income after provision for doubtful loans		
Operating expenses		
Personnel	10,997,122	10,486,922
Administration	2,978,445	3,455,442
Occupancy	3,459,831	3,242,020
Organizational	374,983	357,811
Member security	802,615	575,354
	<hr/> 18,612,996	<hr/> 18,117,549
Income before income taxes	4,038,063	4,424,823
Provision for income taxes (note 19)	552,477	614,400
	<hr/> 3,485,586	<hr/> 3,810,423
Net income and comprehensive income for the year		

The accompanying notes are an integral part of these consolidated financial statements.

Sunova Credit Union Limited

Consolidated Statement of Changes in Members' Equity

For the year ended December 31, 2012

	Members' shares (Note 18) \$	Retained surplus \$	Total members' equity \$
Balance at January 1, 2012	18,004,819	35,269,430	53,274,249
Net income and comprehensive income for the year	-	3,485,586	3,485,586
Share dividend on common shares (note 18)	-	(773,875)	(773,875)
Share dividend on surplus shares (note 18)	-	(205,596)	(205,596)
Income taxes refunded on share dividend	-	117,527	117,527
Common shares issued - net of redemptions	4,946,310	-	4,946,310
Surplus shares issued - net of redemptions	747,165	-	747,165
Balance at December 31, 2012	23,698,294	37,893,072	61,591,366
Balance at January 1, 2011	15,900,858	32,201,489	48,102,347
Net income and comprehensive income for the year	-	3,810,423	3,810,423
Share dividend on common shares (note 18)	-	(637,847)	(637,847)
Share dividend on surplus shares (note 18)	-	(205,635)	(205,635)
Income taxes refunded on share dividend	-	101,000	101,000
Common shares issued - net of redemptions	1,404,575	-	1,404,575
Surplus shares issued - net of redemptions	699,386	-	699,386
Balance at December 31, 2011	18,004,819	35,269,430	53,274,249

The accompanying notes are an integral part of these consolidated financial statements.

Sunova Credit Union Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2012

	2012 \$	2011 \$
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income for the year	3,485,586	3,810,423
Items not affecting cash		
Depreciation and amortization expense		
Property and equipment	2,161,709	2,097,198
Intangible assets	173,669	173,668
Investment property valuation adjustment (note 12)	(43,871)	(31,735)
Deferred income taxes	(97,350)	(42,600)
Gain on sale of property and equipment	(30,328)	-
Provision for (recovery of) doubtful loans	1,289,040	(1,853,235)
Equity loss (earnings) (note 22)	108	(63,958)
	<u>6,938,563</u>	<u>4,089,761</u>
Net change in non-cash working capital items (note 23)	(27,210,559)	40,758,852
	<u>(20,271,996)</u>	<u>44,848,613</u>
Investing activities		
Property and equipment and investment property additions	(772,680)	(6,527,942)
Proceeds from property and equipment disposals	87,350	5,222
Business acquisitions (note 7)	-	(193,091)
Investment in associates (note 22)	(1,644,887)	(7,117)
	<u>(2,330,217)</u>	<u>(6,722,928)</u>
Financing activities		
Issuance of members' shares - net of redemptions	4,946,310	1,404,575
Redemption of surplus shares	(232,306)	(144,096)
Change in loans payable	18,001,519	(38,048,299)
	<u>22,715,523</u>	<u>(36,787,820)</u>
Increase in cash on hand	113,310	1,337,865
Cash on hand - Beginning of year	<u>4,848,494</u>	<u>3,510,629</u>
Cash on hand - End of year	<u>4,961,804</u>	<u>4,848,494</u>
Supplemental information		
Interest received	33,419,890	30,163,736
Interest paid	16,718,130	14,941,632
Income taxes paid	514,396	377,608

The accompanying notes are an integral part of these consolidated financial statements.

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2012

1 General information

Sunova Credit Union Limited (the “Credit Union”) is incorporated under the Credit Union Incorporation Act of Manitoba and its operations are subject to the Credit Unions and Caisses Populaires Act (Manitoba) (the “Act”). The Credit Union serves members in Manitoba and provides retail, commercial and investment banking services. The Credit Union has two wholly-owned subsidiaries, Sunova Financial Services Inc., which holds various investments in associates in insurance brokerages and agencies, and Sunova Property Holdings Ltd. which holds real estate investment property. The Credit Union’s registered office is 233 Main Street, Selkirk, Manitoba, Canada.

These consolidated financial statements have been approved for issue by the Board of Directors on April 5, 2013.

2 Basis of presentation

The Credit Union prepares its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as defined in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 (“CICA Handbook”).

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and financial liabilities at available-for-sale (“AFS”) or fair value through profit or loss (“FVTPL”) and investment property.

The consolidated financial statements’ values are presented in Canadian dollars (\$) unless otherwise indicated, which is the functional and presentation currency of the Credit Union.

The Credit Union presents its consolidated statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the year end date (current) and more than twelve months after the year end date (non-current), presented in the notes. The Credit Union classifies its expense by the nature of expenses method.

The following balances are generally classified as current: cash on hand, investments and deposits, members’ loans due within one year or on demand, income tax recoverable/payable, other assets, members’ savings and deposits due on demand or within one year, accounts payable and accrued liabilities and loans payable.

The following balances are generally classified as non-current: long-term portion of members’ loans, property and equipment, intangible assets, investment property, investments in associates, goodwill, non-current members’ savings and deposits and deferred income tax liabilities.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the consolidated statement of net income and comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Credit Union.

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2012

The policies applied in these consolidated financial statements are based on IFRS effective March 20, 2013, the date the Board of Directors (the “Board”) approved the consolidated financial statements.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union’s accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions are changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are the allowance for doubtful loans, the fair value of investment property, the measurement of income taxes, the valuation of goodwill and the fair value of financial instruments, and are disclosed in note 4.

3 Significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Credit Union, its wholly-owned subsidiaries, Sunova Property Holdings Ltd. and Sunova Financial Services Inc., including Sunova Financial Services Inc.’s investments in associates, which are accounted for under the equity method. The financial statements of the subsidiaries are prepared for the same reporting year as the Credit Union, using consistent accounting policies. The financial statements of the equity accounted investments have a statutory accounting year end of October 31 and use different accounting policies. The Credit Union has recorded adjustments to take into consideration any changes subsequent to the equity accounted investments year end to December 31 and to convert the accounting policies that would materially affect the results to IFRS. The equity method investments are recorded at cost and are increased for the proportionate share of post-acquisition earnings and decreased by post-acquisition losses and dividends.

All inter-company balances, transactions and profits and losses are eliminated.

Financial instruments

Financial assets

The Credit Union designates financial assets as follows: loans and receivables (“L&R”), held-to-maturity (“HTM”) investments, fair value through profit and loss (“FVTPL”) and AFS financial assets. Management determines the classification of its financial instruments at initial recognition. The Credit Union uses trade date accounting when recording financial asset transactions.

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

December 31, 2012

Loans and receivables

Members' loans, term and contract deposits with Credit Union Central of Manitoba ("Central"), current accounts and accounts receivable are designated as L&R. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at fair value, which is the cash consideration to originate or purchase the loan net of any transaction costs, and measured subsequently at amortized cost using the effective interest rate method.

Members' loans

Loans are stated net of an allowance for doubtful loans established to recognize estimated probable losses. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the consolidated statement of net income and comprehensive income as a provision for doubtful loans. Collateral property and property held for resale is valued at the lower of cost and estimated net realizable value. Loans are written off when there is no realistic prospect of recovering the loan in full. Recoveries on loans previously written off are taken into income.

Allowance for doubtful loans

The Credit Union maintains allowances for doubtful loans that reduce the carrying value of loans identified as impaired to their present value of expected cash flows discounted at the loan's original effective interest rate. Short-term balances are not discounted. A loan is considered impaired if it is more than 90 days past due and the Credit Union no longer has reasonable assurance that the full amount of the principal and interest will be collected in accordance with the terms of the loan agreement.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (on the basis of the Credit Union's grading process that considers characteristics of each loan portfolio, industry, past-due status, historical write-off experience and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the member's ability to pay all amounts due according to the contractual terms of the loans being evaluated.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Credit Union and historical loss experience for loans with credit risk characteristics similar to those in the Credit Union. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

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When a loan is uncollectible, it is written off against the related allowance for doubtful loans. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of net income and comprehensive income in the provision for doubtful loans as a recovery.

Available for sale financial assets

AFS investments are financial assets that are intended to be held for an indefinite period of time and are not classified as loans and receivables, HTM or financial assets at FVPTL and include shares in Central and the investment in an insurance agency where the Credit Union does not have significant influence.

AFS financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs and measured subsequently at fair value with gains and losses being recognized in the consolidated statement of net income and comprehensive income.

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the market, economic or legal investment in which the issuer operates. If an AFS financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the consolidated other comprehensive income is recognized in consolidated net income. However, interest is calculated using the effective interest method and dividends on AFS equity instruments are recognized in the consolidated statement of net income and comprehensive income in investment income when the right to receive payment is established.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity and include bonds and debentures. Certain other investments have been classified as held-to-maturity.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest rate method. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized as impairment loss.

Financial liabilities

The Credit Union designates members' savings and deposits, loans payable and accounts payable and accrued liabilities as other financial liabilities. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

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Derivative financial instruments

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recorded on the consolidated statement of financial position at fair value. Changes in the value of the derivative instruments are recognized directly in the consolidated statement of net income and comprehensive income for the year. The Credit Union has no material derivative financial instruments.

Investment in associates

Associates are entities over which the Credit Union has significant influence, but not control. The Credit Union accounts for its investments in associates using the equity method. The Credit Union's share of profits or losses of associates is recognized in the consolidated statement of net income and comprehensive income.

Unrealized gains on transactions between the Credit Union and an associate are eliminated to the extent of the Credit Union'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 in investments in associates are recognized in the consolidated statement of net income and comprehensive income.

Investment property

Properties that are held for long-term rental yields, capital appreciation or both, and that are not occupied by the Credit Union, are classified as investment property. Investment properties comprise office buildings and retail space leased out under operating lease agreements.

Some properties may be partially occupied by the Credit Union, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Credit Union can be sold separately, the Credit Union accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16: Property, Plant and Equipment, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40: Investment Property. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Credit Union considers the owner-occupied portion as insignificant when the property is more than 80% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Credit Union uses the size of the property measured in square metres.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

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Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has been incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of net income and comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of net income and comprehensive income during the financial period in which they are incurred.

The fair value of investment property is based on the nature, location and condition of the specific asset. The fair value is calculated by determining three different estimates of value for each property. The three estimates are the cost approach (replacement value), income approach (estimated rental value) and the direct comparison approach (comparable property value). The three estimates of value are then rendered into one final estimate of value through a reconciliation process where each estimate of value is considered in light of the accuracy, importance, and relevancy of the data on which it is based. The resulting valuation is the final estimate of value. The fair value of investment property does not reflect future capital expenditures that will improve or enhance the property and does not reflect the related future benefits from this expenditure. These valuations are performed annually by an external appraiser.

The Credit Union only enters as lessor into lease agreements that are classified as operating leases. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in investment property. Lease incentives are recognized as a reduction of rental income on a straight-line basis over the lease term.

Property and equipment

Property and equipment are recorded at acquisition cost. The cost of land and buildings at January 1, 2010, the Credit Union's date of transition to IFRS, was determined by reference to its fair value at that date. Depreciation is provided over the estimated useful life of the assets as follows:

Buildings	2% - 5% straight-line
Furniture and equipment	20% declining balance
Computer equipment	20% straight-line
Security equipment	5% straight-line
PC software	50% straight-line
Automobiles	30% straight-line

Land is not subject to depreciation. Assets within construction in progress ("CIP") are not depreciated until being ready for use and at which time become subject to depreciation. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Intangible assets

Intangible assets consist of certain acquired and internally developed banking software. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Input costs directly attributable to the development or implementation of the asset are capitalized if it is probable that future economic benefits associated with the expenditure will flow to the Credit Union and the cost can be measured reliably. Finite life intangible assets are tested for impairment when events or circumstances indicate that the carrying value may not be recoverable. When the recoverable amount is less than the net carrying value an impairment loss is recognized.

Intangible assets available for use are amortized on a straight-line basis over their useful lives (which has been estimated to be ten years). Method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Research costs are recognized as an expense in the period incurred.

There are no indefinite life intangible assets.

Goodwill

Goodwill represents the excess of purchase price over fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is not amortized but is evaluated for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. Testing for impairment is accomplished by determining if the carrying value of the goodwill exceeds its recoverable amount at the assessment date. The recoverable amount is the higher of the goodwill's fair value less costs to sell and value in use. For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Should the carrying value exceed the recoverable amount, an impairment loss is recognized in the consolidated statement of net income and comprehensive income at that time. The estimate of the recoverable amount required for the impairment test is sensitive to the cash flow projections and the assumptions used in the valuation model. Previously recorded impairment losses for goodwill are not reversed in future periods.

Impairment of non-financial assets

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment is recognized in the consolidated statement of net income and comprehensive income, when there is an indication that an asset may be impaired. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the consolidated statement of net income and comprehensive income at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of net income and comprehensive income in the period the asset is derecognized.

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Provisions and contingent liabilities

Provisions are recognized when the Credit Union has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Credit Union expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of net income and comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Members' shares

Common and surplus share redemptions are made at the sole discretion of the Board. Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Common and surplus shares are accounted for in accordance with *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments* ("IFRIC 2"). In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits.

Share dividends

Share dividends are recognized in the consolidated statement of changes in members' equity in the period in which they are approved by the Board.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments is recognized using the effective interest rate method. Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Other income

Fees and commissions are recognized when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured. Performance-linked fees or fee components are recognized when the performance criteria are fulfilled.

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Income taxes

Tax expense for the period comprises current and deferred income tax.

Current income tax expense is calculated on the basis of the Canadian tax laws enacted or substantially enacted at the statement of financial position date.

Deferred income taxes are provided for using the liability method. Under this method, temporary differences are recorded using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the corresponding taxes will be paid or refunded. Temporary differences are comprised primarily of differences between the financial reporting and the income tax bases of the Credit Union's members' loans, property and equipment, investment property, intangible assets and goodwill. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Translation of foreign currencies

Cash on hand, investments and deposits and members' savings and deposits denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on the statement of financial position date. Foreign exchange gains and losses are recorded in other income at the rates prevailing at the time of the transaction.

4 Critical accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods covered by the consolidated financial statements.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant accounting judgements, estimates and assumptions

In the process of applying the Credit Union's accounting policies, management has made the following judgments, estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Allowance for doubtful loans

The estimate of the allowance for doubtful loans is the most critical accounting estimate to the Credit Union. The Credit Union reviews its loan portfolios to assess the allowance for doubtful loans at least on a quarterly basis. In determining whether an allowance for doubtful loans should be recorded in the consolidated statement of net income and comprehensive income, the Credit Union makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on assets in the Credit Union. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of investment property

An external appraiser estimates the fair value of investment properties annually. The fair value of investment property is based on the nature, location and condition of the specific asset. The fair value is calculated by determining three different estimates of value for each property. The three estimates are the cost approach (replacement value), income approach (estimated rental value) and the direct comparison approach (comparable property value). The three estimates of value are then rendered into one final estimate of value through a reconciliation process where each estimate of value is considered in light of the accuracy, importance, and relevancy of the data on which it is based. The resulting valuation is the final estimate of value. The fair value of investment property does not reflect future capital expenditures that will improve or enhance the property and does not reflect the related future benefits from this expenditure. Changes in assumptions about these factors could affect the carrying value of investment property.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Changes in assumptions about these factors could affect the disclosed fair value of financial instruments. The fair value of financial instruments is disclosed in note 21.

Valuation of goodwill

The estimate of the recoverable amount required for the impairment test is based upon a discounted cash flow analysis. Determining the recoverability of goodwill requires an estimation of recoverable amount of the asset or cash-generating-unit. Key assumptions and sources of uncertainty include the determination of future cash flows expected to arise from the asset or cash-generating-unit and a suitable discount rate in order to calculate present value.

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

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Measurement of income taxes

Management exercises judgement in estimating the provision for income taxes. The Credit Union is subject to income tax laws in the federal and provincial jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the Credit Union and the relevant tax authority. To the extent that the Credit Union's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Significant management judgment is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

5 New Accounting Standards

- i) 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, *Consolidation and Separate Financial Statements*.
- ii) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- iii) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- iv) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 - 13.

These standards are required to be applied for annual periods beginning on or after January 1, 2013. The Credit Union has not yet assessed the impact of these standards.

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Notes to Consolidated Financial Statements

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6 Standards and interpretations issued but not yet effective

Future accounting changes

The following revised standards and amendments may be applicable to the Credit Union:

- 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, dividends are recognized in net income to the extent that they do not clearly represent a return of investment; however, other gains and losses associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at FVTPL are generally recorded in other comprehensive income.

This standard is required to be applied for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Credit Union has not yet assessed the impact of this standard or determined whether it will early adopt it.

7 Business acquisitions

Effective November 1, 2012, the Credit Union purchased a 49% ownership interest in common shares and preferred shares of an insurance agency for cash consideration of \$1,644,887. The Credit Union has determined that it has significant influence over the investment acquired and uses the equity basis of accounting for this investment.

Effective November 1, 2011, the Credit Union purchased a 12.25% ownership interest in common shares in an insurance agency for cash consideration of \$193,091. The Credit Union has determined that it does not have significant influence over this investment and therefore treats this investment as AFS. During the 2012 fiscal year, the Credit Union capitalized transaction costs of \$943.

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

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8 Investments and deposits

The carrying value of the Credit Union's investments by financial instrument categories are as follows:

	2012			
	AFS	L&R	HTM	Total
	\$	\$	\$	\$
Credit Union Central of Manitoba				
Shares	5,541,510	-	-	5,541,510
Current account				
Canadian	-	36,291,668	-	36,291,668
U.S.	-	10,276,120	-	10,276,120
Term and contract deposits	-	20,000,000	-	20,000,000
	5,541,510	66,567,788	-	72,109,298
Other investments				
Concentra Financial Services Association - debenture	-	-	1,000,000	1,000,000
Town of Beausejour	-	-	1,140,634	1,140,634
Town of Stonewall	-	-	1,044,064	1,044,064
City of Selkirk	-	-	256,663	256,663
Town of Powerview	-	-	127,885	127,885
Investment in insurance agency	194,034	-	-	194,034
	5,735,544	66,567,788	3,569,246	75,872,578
Accrued interest receivable	-	66,251	82,219	148,470
	5,735,544	66,634,039	3,651,465	76,021,048

Sunova Credit Union Limited
Notes to Consolidated Financial Statements
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	2011			
	AFS \$	L&R \$	HTM \$	Total \$
Credit Union Central of Manitoba				
Shares	7,487,364	-	-	7,487,364
Current account				
Canadian	-	48,119,393	-	48,119,393
U.S.	-	6,720,842	-	6,720,842
Term and contract deposits	-	40,000,000	-	40,000,000
	7,487,364	94,840,235	-	102,327,599
Other investments				
Concentra Financial Services Association - debenture	-	-	1,000,000	1,000,000
Town of Beausejour	-	-	1,074,140	1,074,140
Town of Stonewall	-	-	1,044,064	1,044,064
City of Selkirk	-	-	313,169	313,169
Town of Powerview	-	-	135,778	135,778
Investment in insurance agency	193,091	-	-	193,091
	7,680,455	94,840,235	3,567,151	106,087,841
Accrued interest receivable	-	77,001	26,771	103,772
	7,680,455	94,917,236	3,593,922	106,191,613

	2012		2011	
	Interest rates ranging from	Maturity dates ranging from	Interest rates ranging from	Maturity dates ranging from
Term and contract deposits	2.54% - 2.72%	3 - 4 years	1.09% - 2.72%	3 months-5 years
Municipal debentures	2.88% - 9.63%	1 - 18 years	4.63% - 9.63%	1-19 years
Concentra Financial Services Association - debenture	5.82%	9 years	5.82%	10 years

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

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9 Members' loans

At December 31, 2012, members' loans are presented net of allowances for doubtful loans totalling \$3,407,802 (2011 - \$2,422,776), consisting of individually significant allowances of \$2,483,979 (2011 - \$1,789,201) for loans considered impaired and \$923,823 (2011 - \$633,575) as collective allowances.

	2012		
	Gross loan balance \$	Allowances \$	Net loan balance \$
Personal	567,119,682	(445,314)	566,674,368
Commercial	175,841,601	(1,987,015)	173,854,586
Agriculture	25,888,095	(51,650)	25,836,445
	<u>768,849,378</u>	<u>(2,483,979)</u>	<u>766,365,399</u>
Accrued interest	1,257,670	-	1,257,670
Collective allowances	-	(923,823)	(923,823)
	<u>770,107,048</u>	<u>(3,407,802)</u>	<u>766,699,246</u>
Current			363,483,871
Non-current			<u>403,215,375</u>
			<u>766,699,246</u>
			2011
	Gross loan balance \$	Allowances \$	Net loan balance \$
Personal	454,317,180	(674,706)	453,642,474
Commercial	160,485,475	(662,736)	159,822,739
Agriculture	24,709,677	(451,759)	24,257,918
	<u>639,512,332</u>	<u>(1,789,201)</u>	<u>637,723,131</u>
Accrued interest	1,066,256	-	1,066,256
Collective allowances	-	(633,575)	(633,575)
	<u>640,578,588</u>	<u>(2,422,776)</u>	<u>638,155,812</u>
Current			322,154,081
Non-current			<u>316,001,731</u>
			<u>638,155,812</u>

Sunova Credit Union Limited

Notes to Consolidated Financial Statements

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Impaired loans

The following schedule provides the amount of impaired loans in each of the major loan categories together with the specific loan allowances relating to these loans:

	2012		
	Impaired loan balance \$	Specific allowance \$	Net impaired loan balance \$
Personal	1,708,651	(445,314)	1,263,337
Commercial	4,156,665	(1,987,015)	2,169,650
Agricultural	285,244	(51,650)	233,594
	6,150,560	(2,483,979)	3,666,581
Accrued interest	42,796	-	42,796
	<u>6,193,356</u>	<u>(2,483,979)</u>	<u>3,709,377</u>
			2011
	Impaired loan balance \$	Specific allowance \$	Net impaired loan balance \$
Personal	3,423,045	(674,706)	2,748,339
Commercial	2,288,871	(662,736)	1,626,135
Agricultural	1,488,901	(451,759)	1,037,142
	7,200,817	(1,789,201)	5,411,616
Accrued interest	60,794	-	60,794
	<u>7,261,611</u>	<u>(1,789,201)</u>	<u>5,472,410</u>

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The total allowance for doubtful loans consists of:

				2012
	Personal	Commercial	Agricultural	Total
	\$	\$	\$	\$
Specific allowance	445,314	1,987,015	51,650	2,483,979
Collective allowance	684,777	207,950	31,096	923,823
	<u>1,130,091</u>	<u>2,194,965</u>	<u>82,746</u>	<u>3,407,802</u>
				2011
	Personal	Commercial	Agricultural	Total
	\$	\$	\$	\$
Specific allowance	674,706	662,736	451,759	1,789,201
Collective allowance	411,171	198,613	23,791	633,575
	<u>1,085,877</u>	<u>861,349</u>	<u>475,550</u>	<u>2,422,776</u>

The change in the allowance for doubtful loans is as follows:

							2012
	Personal		Commercial		Agricultural		Total
	Specific allowance	Collective allowance	Specific allowance	Collective allowance	Specific allowance	Collective allowance	\$
	\$	\$	\$	\$	\$	\$	\$
Balance - beginning of year	674,706	411,171	662,736	198,613	451,759	23,791	2,422,776
Change in impairment provision	61,040	273,606	1,337,861	9,337	(400,109)	7,305	1,289,040
Loans written off in the year	(290,432)	-	(13,582)	-	-	-	(304,014)
	<u>445,314</u>	<u>684,777</u>	<u>1,987,015</u>	<u>207,950</u>	<u>51,650</u>	<u>31,096</u>	<u>3,407,802</u>

Sunova Credit Union Limited
Notes to Consolidated Financial Statements
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	2011						
	Personal		Commercial		Agricultural		Total
	Specific allowance	Collective allowance	Specific allowance	Collective allowance	Specific allowance	Collective allowance	
	\$	\$	\$	\$	\$	\$	\$
Balance - beginning of year	1,171,770	389,000	1,750,408	140,293	1,339,260	87,889	4,878,620
Reversal of impairment	(320,969)	-	(1,074,492)	-	(887,501)	(64,098)	(2,347,060)
Increase in impairment provision	28,457	22,171	-	58,320	-	-	108,948
Loans written off in the year	(204,552)	-	(13,180)	-	-	-	(217,732)
	674,706	411,171	662,736	198,613	451,759	23,791	2,422,776

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 following table presents the carrying value of loans at December 31 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.

	2012			
	1 - 30 days	31 - 60 days	61 days and greater	Total
	\$	\$	\$	\$
Personal	8,555,471	671,136	12,131	9,238,738
Commercial	3,238,610	-	41,217	3,279,827
Agricultural	-	-	-	-
	11,794,081	671,136	53,348	12,518,565

	2011			
	1 - 30 days	31 - 60 days	61 days and greater	Total
	\$	\$	\$	\$
Personal	8,987,254	407,801	282,304	9,677,359
Commercial	3,302,709	-	-	3,302,709
Agricultural	36,435	-	-	36,435
	12,326,398	407,801	282,304	13,016,503

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The principal collateral and other credit enhancements the Credit Union holds as security for loans include (i) insurance and title over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Upon initial recognition of loans to members, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, 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.

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Notes to Consolidated Financial Statements
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10 Property and equipment

The movements in property and equipment were as follows:

	Land \$	Buildings \$	Furniture and equipment \$	Computer equipment \$	Security equipment \$	PC software \$	Automobiles \$	CIP \$	Total \$
At December 31, 2011									
Opening cost	1,422,938	18,208,764	6,067,617	4,488,065	732,941	625,198	308,422	9,014,920	40,868,865
Additions	-	70,259	2,483,660	222,444	1,390,515	24,416	94,593	2,196,790	6,482,677
Disposals/write-offs	-	-	(5,222)	-	-	-	-	-	(5,222)
Transfers	-	11,211,710	-	-	-	-	-	(11,211,710)	-
Closing cost	<u>1,422,938</u>	<u>29,490,733</u>	<u>8,546,055</u>	<u>4,710,509</u>	<u>2,123,456</u>	<u>649,614</u>	<u>403,015</u>	<u>-</u>	<u>47,346,320</u>
At December 31, 2011									
Opening accumulated depreciation	-	(410,637)	(3,552,621)	(3,916,624)	(403,078)	(464,559)	(128,815)	-	(8,876,334)
Depreciation expense	-	(546,145)	(935,206)	(302,814)	(93,865)	(130,485)	(88,683)	-	(2,097,198)
Closing accumulated depreciation	<u>-</u>	<u>(956,782)</u>	<u>(4,487,827)</u>	<u>(4,219,438)</u>	<u>(496,943)</u>	<u>(595,044)</u>	<u>(217,498)</u>	<u>-</u>	<u>(10,973,532)</u>
Net book value	<u>1,422,938</u>	<u>28,533,951</u>	<u>4,058,228</u>	<u>491,071</u>	<u>1,626,513</u>	<u>54,570</u>	<u>185,517</u>	<u>-</u>	<u>36,372,788</u>
At December 31, 2012									
Opening cost	1,422,938	29,490,733	8,546,055	4,710,509	2,123,456	649,614	403,015	-	47,346,320
Additions	-	160,930	227,612	113,450	11,358	30,530	155,120	-	699,000
Disposals/write-offs	-	(697,410)	(1,027,119)	(3,216,017)	(82,836)	(224,789)	(54,783)	-	(5,302,954)
Closing cost	<u>1,422,938</u>	<u>28,954,253</u>	<u>7,746,548</u>	<u>1,607,942</u>	<u>2,051,978</u>	<u>455,355</u>	<u>503,352</u>	<u>-</u>	<u>42,742,366</u>
At December 31, 2012									
Opening accumulated depreciation	-	(956,782)	(4,487,827)	(4,219,438)	(496,943)	(595,044)	(217,498)	-	(10,973,532)
Disposals/write-offs	-	-	1,027,119	3,213,778	82,836	224,789	-	-	4,548,522
Depreciation expense	-	(644,274)	(1,007,745)	(286,371)	(99,940)	(68,922)	(54,457)	-	(2,161,709)
Closing accumulated depreciation	<u>-</u>	<u>(1,601,056)</u>	<u>(4,468,453)</u>	<u>(1,292,031)</u>	<u>(514,047)</u>	<u>(439,177)</u>	<u>(271,955)</u>	<u>-</u>	<u>(8,586,719)</u>
Net book value	<u>1,422,938</u>	<u>27,353,197</u>	<u>3,278,095</u>	<u>315,911</u>	<u>1,537,931</u>	<u>16,178</u>	<u>231,397</u>	<u>-</u>	<u>34,155,647</u>

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Notes to Consolidated Financial Statements

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11 Intangible assets

	2012 \$	2011 \$
Cost		
At January 1	1,736,687	1,736,687
At December 31	1,736,687	1,736,687
Accumulated amortization		
At January 1	346,861	173,193
Amortization	173,669	173,668
At December 31	520,530	346,861
Net book value at December 31	1,216,157	1,389,826

Amortization expense on intangible assets of \$173,669 (2011 - \$173,668) is included in occupancy expense in the consolidated statement of net income and comprehensive income.

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Notes to Consolidated Financial Statements
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12 Investment property

The movements in investment property were as follows:

	2012	2011
	\$	\$
Balance - beginning of year	11,187,000	11,110,000
Acquisitions	771,090	-
Capital expenditures	-	45,265
Unrealized fair value adjustment	43,871	31,735
	<hr/>	<hr/>
Balance - end of year	12,001,961	11,187,000
	<hr/>	<hr/>
Rental income from investment property	554,327	492,878
Direct operating costs of investment property	173,502	141,188

On November 1, 2012 the Credit Union purchased an investment property for cash proceeds of \$771,090. The property will be leased out under an operating lease.

Investment properties with an aggregate fair value of \$11,230,000 (2011 - \$11,187,000) were valued by an external independent valuation professional who is deemed to be a qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment property valued. The carrying value of investment properties valued by the external appraiser at December 31, 2012 agrees to the valuations reported by the external appraiser.

Investment property held by the Credit Union is leased out under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2012	2011
	\$	\$
Less than 1 year	647,877	461,667
Between 1 and 5 years	2,746,165	2,033,033
More than 5 years	4,464,383	4,536,034
	<hr/>	<hr/>
	7,858,425	7,030,734
	<hr/>	<hr/>

The key valuation assumptions for investment properties as at December 31, 2012 are as follows:

	Maximum	Minimum	Weighted average
Capitalization rate	7.75%	6.0%	6.24%

Additional valuation assumptions include the rental revenue per square metre, grade quality of the property and comparable market data.

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Notes to Consolidated Financial Statements

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13 Other assets

	2012 \$	2011 \$
Accounts receivable	120,991	105,113
Prepaid expenses and deposits	793,772	485,241
Property held for resale	459,029	583,240
	<hr/>	<hr/>
	1,373,792	1,173,594

The carrying value above reasonably approximates fair value at the statement of financial position date. Property held for resale is presented net of the allowance amounting to \$404,877 (2011 - \$384,877).

14 Members' savings and deposits

	2012 \$	2011 \$
Demand deposits	514,584,173	463,169,404
Term deposits	154,774,327	150,702,430
Registered savings plans	148,816,901	132,384,799
	<hr/>	<hr/>
Accrued interest	818,175,401 4,263,735	746,256,633 4,730,988
	<hr/>	<hr/>
	822,439,136	750,987,621
	<hr/>	<hr/>
Current	670,410,107	587,744,300
Non-current	152,029,029	163,243,321
	<hr/>	<hr/>
	822,439,136	750,987,621

Members' savings and deposits amounting to \$245,370,719 (2011 - \$244,777,802) are at fixed interest rates and all other members' savings and deposits amounting to \$572,804,682 (2011 - \$501,478,831) are at variable rates.

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15 Loans payable

The Credit Union has approved lines of credit equal to 10% of its members' deposits with Central or \$82,243,914. The line of credit with Central is payable on demand with interest payable on a variable rate basis. As collateral for the line of credit, the Credit Union has pledged an assignment of term and contract deposits. At December 31, 2012, the line of credit was unutilized.

On December 31, 2012, the Credit Union entered into a demand loan payable with Central in the amount of \$18,000,000. The loan bears interest at 3.08% and matured on January 30, 2013.

The demand loan was repaid on maturity in 2013.

16 Accounts payable and accrued liabilities

	2012 \$	2011 \$
The Deposit Guarantee Corporation of Manitoba assessment	210,403	132,767
Accrued expenses and payables	3,447,083	2,480,294
	<u>3,657,486</u>	<u>2,613,061</u>

The carrying value above reasonably approximates fair value at the statement of financial position date. All accounts payable and accrued liabilities are current.

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Notes to Consolidated Financial Statements
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17 Capital disclosures

Regulations to the Act establish the following requirements with respect to capital and liquidity reserves:

Capital requirements

The Credit Union shall maintain a level of capital, which is comprised of members' equity that meets or exceeds the following requirements:

- a) its capital shall not be less than 5% of the book value of its assets;
- b) its retained surplus shall not be less than 3% of the book value of its assets; and
- c) a tiered level of capital shall not be less than 8% of the risk-weighted value of its assets as defined in the Regulations.

The capital levels as at December 31 are as follows:

	2012 As a % of assets	2011 As a % of assets
Total regulatory capital	5.75%	5.31%
Retained earnings	3.10%	3.05%
Risk weighted capital	11.06%	10.06%

In accordance with the Act and Deposit Guarantee Corporation of Manitoba ("Deposit Guarantee Corporation") regulations, unrealized gains on fair value adjustments of property and equipment at transition to IFRS and unrealized gains on fair value adjustments of investment property are not included in the above capital calculations.

The Credit Union is in compliance with the capital requirements at December 31, 2012 and 2011.

Liquidity reserve

The Credit Union shall maintain in cash on hand and investments in Central not less than 8% of its total members' deposits. As at December 31, 2012 the Credit Union had liquidity reserves equal to 8.70% of its total savings and deposits (2011 - 13.27%).

The Credit Union is in compliance with the liquidity reserve requirements at December 31, 2012 and 2011.

Capital is managed in accordance with policies established by the Board. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible shares, within the context of its overall capital management plan.

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Notes to Consolidated Financial Statements

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18 Members' shares

Each member, of legal age, of the Credit Union has one vote, regardless of the number of shares that a member holds.

Authorized shares

Common shares

Authorized common share capital consists of an unlimited number of common shares, with an issue price per share to be not less than \$5 and redeemable in the amount of consideration received for the share. Under the terms of a share purchase program, members are required to purchase additional common shares. A member ceases to participate in the program when they have a maximum of 200 common shares. The total amount of common shares purchased or redeemed by the Credit Union shall not reduce the Credit Union's equity below 5% of assets.

Surplus shares

Authorized surplus share capital consists of an unlimited number of surplus shares, with an issue price of \$1 per share and redeemable at \$1 per share.

Distribution to members and share dividends

During the year, pursuant to Board approval, the Credit Union distributed:

- a) 4.71% share dividend of \$773,875 (2011 - 5.50% for \$637,847) based on common shares held by the membership.
- b) 4.71% share dividend of \$205,596 (2011 - 5.50% for \$205,635) based on surplus shares held by the membership.

These distributions were in the form of surplus shares, valued at \$1 each, and were credited to members' surplus share accounts.

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Issued shares

	2012 \$	2011 \$
3,668,100 common shares (2011 - 2,678,838)	18,340,500	13,394,190
5,357,794 surplus shares (2011 - 4,610,629)	5,357,794	4,610,629
	<hr/> 23,698,294	<hr/> 18,004,819
	2012	2011
Common shares		
Beginning of year	2,678,838	2,397,923
Issued during the year	1,788,607	661,126
Redeemed during the year	(799,345)	(380,211)
	<hr/> 3,668,100	<hr/> 2,678,838
End of year		
Surplus shares		
Beginning of year	4,610,629	3,911,243
Issued during the year	1,395,401	843,482
Redeemed during the year	(648,236)	(144,096)
	<hr/> 5,357,794	<hr/> 4,610,629
End of year		
Total members' shares	<hr/> 9,025,894	<hr/> 7,289,467

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19 Income taxes

The significant components of the provision for income taxes included in the consolidated statement of net income and comprehensive income are composed of:

	2012	2011
	\$	\$
Current income taxes		
Based on current year taxable income	550,648	657,000
Adjustment recognized for current tax of prior periods	99,179	-
	<hr/> 649,827	<hr/> 657,000
Deferred income taxes		
Origination and reversal of temporary differences	(61,800)	168,100
Increase in tax rates	-	(210,700)
Adjustment recognized for deferred taxes of prior periods	(35,550)	-
	<hr/> (97,350)	<hr/> (42,600)
Total provision for income taxes	<hr/> 552,477	<hr/> 614,400

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

	2012	2011
	%	%
Federal base rate	38.00	38.00
Federal abatement	(10.00)	(10.00)
Additional deduction for credit unions	(17.00)	(17.00)
	<hr/> 11.00	<hr/> 11.00
Net federal tax rate	11.00	11.00
Provincial tax rate	1.00	1.00
	<hr/> 12.00	<hr/> 12.00

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Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory rate of 12% (2011 - 12%) are as follows:

	2012	2011
	\$	\$
Net income for the year	4,038,063	4,424,823
Expected provision for income taxes at statutory rates	484,568	530,979
Non-taxable items		
Non-deductible portion of expenses/non-taxable income	7,009	(2,473)
Impact of change in tax rates	-	(210,700)
Higher tax rate applicable to subsidiary	50,423	123,826
Adjustment recognized for tax of prior periods	63,629	152,264
Other	(53,152)	20,504
Total provision for income taxes	552,477	614,400

Based on the Income Tax Act, Credit Unions are entitled to a deduction from taxable income related to payments in respect of shares and therefore any dividends paid or payable by the Credit Union would result in tax savings of 12% (2011 - 12%). As a result, dividends charged against revenues are net of the foregoing related income tax savings of \$117,527 (2011 - \$101,000).

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

	2012	2011
	\$	\$
Deferred tax assets		
Members' loans	140,670	115,000
Loss carry-forward of subsidiaries	56,190	-
	196,860	115,000
Deferred tax liabilities		
Property and equipment	(1,703,400)	(1,719,500)
Goodwill and intangible assets	(116,610)	(116,000)
	(1,820,010)	(1,835,500)
Total deferred taxes	(1,623,150)	(1,720,500)

The Credit Union has no material unrecognized temporary differences related to its wholly-owned subsidiaries or associates. One of the Credit Union's subsidiaries has accumulated non-capital losses of approximately \$120,408 (2011 - \$97,337) which can be used to offset future taxable income. The benefit of these losses has been recorded as an asset.

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These losses expire as follows:

	\$
2030	44,863
2031	52,474
2032	23,071
	<u>120,408</u>

Current income taxes (payable) or recoverable as at December 31, 2012 are \$150,969 (2011 - \$112,888).

	2012 \$	2011 \$
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	140,670	115,000
Deferred tax assets to be recovered after more than 12 months	56,190	-
	<u>196,860</u>	<u>115,000</u>
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(1,820,010)	(1,835,500)
	<u>(1,820,010)</u>	<u>(1,835,500)</u>
Net deferred tax liability	<u>(1,623,150)</u>	<u>(1,720,500)</u>

The movement in the deferred tax assets and liabilities is recognized in the statement of net income and comprehensive income for the year.

20 Risk management

The Credit Union's risk management policies are designed to identify and analyse 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 Credit Union follows an enterprise risk management framework which 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 Credit Union regularly reviews its risk management policies and systems to take account of changes in markets and products.

Risk management is carried out by management who reports to the Board. The Board provides written principles for risk tolerance and overall risk management. Management reports to the Board on the Credit Union's compliance with the risk management policies. In addition, the Credit Union maintains an Internal Audit function which is responsible for independent review of risk management and the Credit Union's control environment.

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Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods. The Credit Union seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally loans and mortgages. The primary types of financial risk which arise from this activity are interest rate, credit, liquidity, foreign exchange and price risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the types of methods used in managing those risks.

Activity	Risks	Method of managing risks
Investments and deposits	Sensitivity to changes in interest rates, liquidity, foreign exchange rates, and credit risk	Monitoring of investment restrictions and monitoring of counterparty risk
Members' loans	Sensitivity to changes in interest rates, liquidity and credit risk	Asset-liability matching, periodic use of derivatives and monitoring of counterparty risk
Members' savings and deposits	Sensitivity to changes in interest rates, liquidity and foreign exchange rates	Asset-liability matching and periodic use of derivatives

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Financial margin reported in the consolidated statement of net income and comprehensive income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by management and reported to the Board.

In managing interest rate risk, the Credit Union relies primarily upon the use of asset-liability and interest rate sensitivity models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the re-pricing of the Credit Union's financial instruments. The Credit Union has not entered into any interest rate swaps in the current year.

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Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board. Based on current differences between financial assets and financial liabilities as at December 31, 2012, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by \$1,488,182 (2011 - \$791,491) over the next twelve months while an immediate and sustained 100 basis point decrease in interest rates would increase net interest income by \$1,488,182 (2011 - \$791,491) over the next twelve months.

Other types of interest rate risk may involve basis risk, the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics (for example the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans). These risks are also monitored on a regular basis and are reported to the Board.

The following schedule shows the Credit Union's sensitivity to interest rate changes as at December 31, 2012. Amounts with floating rates or due or payable on demand are classified as maturing within less than one year, regardless of maturity. Loans and deposits subject to fixed rates are based on contractual terms. Amounts that are not interest sensitive have been grouped together.

	Assets \$	Liabilities and members' equity \$	Net asset/ liability gap \$
Expected repricing or maturity date			
Less than one year	408,621,440	584,029,928	(175,408,488)
1 to 2 years	48,175,240	66,924,634	(18,749,394)
2 to 3 years	79,268,585	41,507,809	37,760,776
3 to 4 years	170,386,835	17,576,265	152,810,570
4 to 5 years	102,323,005	25,054,890	77,268,115
Over 5 years	26,549,790	965,430	25,584,360
Not interest sensitive	72,138,731	171,404,670	(99,265,939)
	<u>907,463,626</u>	<u>907,463,626</u>	<u>-</u>

The average rate for interest bearing assets is 4.19% (2011 - 4.41%) and for interest bearing liabilities is 2.03% (2011 - 2.24%).

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

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Credit risk

Credit risk is the risk that a Credit Union member or counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy of Manitoba or deterioration in lending sectors which represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the date of the consolidated statement of financial position. Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in loans to members and investing activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is reported to the Board.

Concentration of loans is managed by the implementation of sectoral and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

The Board is responsible for approving and monitoring the Credit Union's tolerance for credit exposures which it does through review and approval of the Credit Union's lending policies and credit scoring system and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasises responsible lending in its relationships with members and to establish that loans are within the member's ability to repay, rather than relying exclusively on collateral.

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Credit Union has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Credit Union considers three components: (i) the "probability of default" by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Credit Union derives the "exposure at default"; and (iii) the likely recovery ratio on the defaulted obligations (the "loss given default"). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

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The classes of financial instruments to which the Credit Union is most exposed are members' loans and investments and deposits.

	2012		
Credit risk exposure	Outstanding	Undrawn	Total exposure
	\$	commitments	\$
		\$	
Investments	76,021,048	-	76,021,048
Personal loans	567,119,682	47,745,145	614,864,827
Agricultural loans	25,888,095	8,832,161	34,720,256
Commercial loans	175,841,601	80,466,522	256,308,123
Accrued interest	1,257,670	-	1,257,670
Total exposure	846,128,096	137,043,828	983,171,924

	2011		
Credit risk exposure	Outstanding	Undrawn	Total exposure
	\$	commitments	\$
		\$	
Investments	106,191,613	-	106,191,613
Personal loans	454,317,180	42,956,780	497,273,960
Agricultural loans	24,709,677	6,395,234	31,104,911
Commercial loans	160,855,475	73,033,621	233,889,096
Accrued interest	1,066,256	-	1,066,256
Total exposure	747,140,201	122,385,635	869,525,836

The above tables represent a worst case scenario of credit risk exposure to the Credit Union at December 31, 2012 and 2011, without taking into account any collateral held or other credit enhancements attached.

a) Investments and deposits

Credit risk arises from the investments and deposits in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. The managed assets consist of cash resources held with Central. All of the Credit Union's liquidity investments are held with Central. Central invests on behalf of the Credit Union as per the investment policies approved by the Investment Committee of the Board of Directors of Central. Central's investment policy requires that all investments are highly-rated (A or higher) and that all of the assets are readily convertible to cash.

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b) Personal loans

Personal loans primarily consist of personal loans, and \$466,493,508 (2011 - \$365,511,275) of real estate mortgages which are fully secured by residential property. The Credit Union's policy is to not exceed a loan-to-value ratio of 80%.

c) Agricultural and commercial loans and lines of credit

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The Credit Union manages credit concentration by establishing lending limits for each industry based on risk ratings for the respective industries. As at December 31, 2012, the Credit Union has not exceeded its lending limit for any industry type. The commercial lending by industry is as follows:

	2012 %	2011 %
Agricultural	14.4	14.0
Construction	6.6	7.8
Retail	5.5	5.7
Hospitality	9.1	11.4
Industrial	5.9	5.8
Real estate rental	20.3	16.7
Public administration	13.8	13.6
Educational services	9.6	10.4
Other services	14.8	14.6

The credit quality of the loan portfolio for those loans which are neither past due or impaired can be assessed by reference to the Deposit Guarantee Corporation's risk rating model. The Credit Union assesses the probability of a default using the risk rating tools below and taking into account statistical analysis as well as the experience and judgement of the Credit department. Members' loans are divided into eight ratings and are regularly reviewed and updated as appropriate.

	2012 %	2011 %
Rating 1 - Excellent risk	3.5	0.8
Rating 2 - Very good risk	18.6	27.2
Rating 3 - Good risk	36.7	37.8
Rating 4 - Acceptable risk	33.8	26.8
Rating 5 - Caution risk	7.1	4.8
Rating 6 - At risk	0.0	0.1
Rating 7 - Impaired with no loan loss allowance	0.1	0.2
Rating 8 - Impaired with loan loss allowance	0.2	2.3

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Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity at all times as described in note 17. The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset-liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity.

The remaining contractual maturity of recognized financial instruments is as follows:

	Payable on a fixed date					Total \$
	Payable on demand \$	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	Over 5 years \$	
Financial assets						
Cash on hand	4,961,804	-	-	-	-	4,961,804
Investments and deposits	52,303,332	229,637	-	20,642,089	2,845,990	76,021,048
Members' loans	302,387,503	61,076,368	48,175,240	331,336,335	23,723,800	766,699,246
Total financial assets	359,652,639	61,306,005	48,175,240	351,978,424	26,569,790	847,682,098
Financial liabilities						
Members' savings and deposits	577,068,417	93,339,690	66,924,634	84,140,964	965,430	822,439,135
Loans payable	-	18,001,519	-	-	-	18,001,519
Accounts payable and accrued liabilities	-	3,657,486	-	-	-	3,657,486
Total financial liabilities	577,068,417	114,998,695	66,924,634	84,140,964	965,430	844,098,140

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Foreign exchange risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period.

Price risk

Price risk arises from changes in market risks, other than interest rate, credit, liquidity or foreign exchange risk, causing fluctuations in the fair value or future cash flows of a financial instrument. Price risk is not considered significant at this time.

21 Fair value of financial instruments

Differences between book value and fair value of investments and deposits, members' loans, member savings and deposits and other financial assets and liabilities are caused by differences between the interest rate obtained at the time of the original investment, loan or deposit and the current rate for the same product. Members' loans and member savings and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in a current transaction between arm's length willing parties, the Credit Union normally holds all of its fixed term investments, loans and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates and may not be indicative of the net realizable value. Furthermore, as many of the Credit Union's financial instruments lack an available trading market, the fair value of members' loans and member savings and deposits with fixed rates are estimated using discounted cash flow models with discount rates based on current market interest rates for similar types of instruments. The inputs to the valuation model for fixed rate loans include scheduled loan amortization rates, estimated rates of repayment with the future cash flows discounted using current market rates for equivalent groups of mortgages or loans. The future cash flows on fixed rate deposits and fixed rate borrowings are discounted to their estimated present value using a discount rate based on current market rates for equivalent groups of fixed rate deposits. Other inputs may include the addition of an interest rate spread to incorporate an appropriate risk premium over Government of Canada rates. The significant assumptions included in the determination of fair value include estimates of credit losses, estimates of interest rates and the estimates of discount rates.

The most significant assumption relates to the discount rates utilized. It is estimated that a 10 basis point change in the discount rate would change the fair value of loans to members and investments by approximately \$1,503,567 (2011 - \$1,277,372), and the fair value of members' deposits by approximately \$389,390 (2011 - \$369,091).

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment.

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The carrying value of accounts receivable and accounts payable and accrued liabilities is deemed to equal their fair value given the short-term nature of these balances.

Fair value of financial assets and liabilities

As at December 31, 2012:

	Carrying value				
	AFS \$	Held for trading \$	Financial assets/liabilities at cost or amortized cost \$	Estimated fair value \$	Fair value greater (less) than book value \$
Financial assets					
Cash on hand	-	4,961,804	-	4,961,804	-
Investments and deposits	5,735,544	46,567,788	23,717,716	76,751,025	729,977
Members' loans	-	-	766,699,246	770,427,450	3,728,204
Total financial assets	5,735,544	51,529,592	790,416,962	852,140,279	4,458,181
Financial liabilities					
Members' savings and deposits	-	-	822,439,136	823,536,761	1,097,625
Total financial liabilities	-	-	822,439,136	823,536,761	1,097,625

As at December 31, 2011:

	Carrying value				
	AFS \$	Held for trading \$	Financial assets/liabilities at cost or amortized cost \$	Estimated fair value \$	Fair value greater (less) than book value \$
Financial assets					
Cash on hand	-	4,848,494	-	4,848,494	-
Investments and deposits	7,680,455	54,840,235	43,300,923	106,839,367	1,017,754
Members' loans	-	-	638,140,935	642,740,587	4,599,652
Total financial assets	7,680,455	59,688,729	681,441,858	754,428,448	5,617,406
Financial liabilities					
Members' savings and deposits	-	-	750,987,621	753,938,434	2,950,813
Total financial liabilities	-	-	750,987,621	753,938,434	2,950,813

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Fair value hierarchy

Assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes; the three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities*

Assets measured at fair value and classified as Level 1 include cash on hand within investments and deposits.

- *Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)*

Level 2 inputs include quoted prices for assets in markets that are considered less active. The AFS investments and deposits are classified as Level 2 as the measurement is derived from inputs other than quoted prices for the investments, either directly or indirectly.

- *Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities*

Level 3 assets and liabilities would include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. There are no assets measured at fair value classified as Level 3.

There were no assets or liabilities transferred between levels during the year.

22 Investments in associates

	2012	2011
	\$	\$
At January 1	7,056,048	6,984,973
Acquisitions	1,644,887	7,117
Equity earnings (loss)	(108)	63,958
	<hr/>	<hr/>
At December 31	8,700,827	7,056,048

There were no published price quotations for any associates of the Credit Union. Furthermore, there are no significant restrictions on the ability of associates to transfer funds to the Credit Union in the form of cash dividends, or repayment of loans.

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23 Net change in non-cash working capital items

	2012	2011
	\$	\$
Loans to members - net of repayments	(129,832,474)	(78,290,283)
Members' savings and deposits - net of withdrawals	71,451,515	160,917,472
Net change in investments and deposits	30,170,565	(43,155,299)
Net change in other assets	(200,198)	118,615
Net change in accounts payable and accrued liabilities	1,044,425	888,955
Net change in income taxes	155,608	279,392
	<u>(27,210,559)</u>	<u>40,758,852</u>

24 Transactions with the Deposit Guarantee Corporation, Central and related parties

The Deposit Guarantee Corporation

The Deposit Guarantee Corporation was incorporated for the purpose of protecting the members of credit unions from financial loss in respect of their deposits with credit unions and to establish sound procedures and controls for credit unions. The Deposit Guarantee Corporation provides a safeguard of all savings and deposits of members of Manitoba credit unions.

Transactions with the Deposit Guarantee Corporation included assessments of \$742,346 (2011 - \$531,062) and are recorded as member security expense.

Amounts payable at year end were \$210,403 (2011 - \$132,767).

Central

The Credit Union is a member of Central which acts as a depository for surplus funds, and makes loans to, credit unions. Central also provides other services for a fee to the Credit Union and acts in an advisory capacity.

Transactions with Central included income earned on investments referred to in note 8 in the amount of \$1,849,058 (2011 - \$1,258,552), interest expense of \$5,447 (2011 - \$992,630) on loans payable referred to in note 15 and fees assessed by Central which include annual affiliation dues in the amount of \$224,491 (2011 - \$210,070) recorded as organizational expenses.

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Related party transactions

Compensation of key management personnel

Key management personnel of the Credit Union include all directors and senior management. The summary of compensation for key management personnel is as follows:

	2012	2011
	\$	\$
Salaries and other short-term employee benefits	1,591,789	1,479,374
Post-employment benefits	26,698	26,097
	<u>1,618,487</u>	<u>1,505,471</u>

As at December 31, 2012, outstanding loans to key management personnel totalled 0.55% (2011 - 0.58%), in aggregate, of the loans to members of the Credit Union. No provisions have been recognized in respect of loans issued to related parties in the current year. As at December 31, 2012, outstanding members' deposits to key management personnel totalled 0.69% (2011 - 0.64%), in aggregate, of the members' deposits of the Credit Union.

Transactions with directors, committee members, management and staff are at terms and conditions as set out by the statutes, by-laws and policies of the Credit Union. Fees and expenses paid by the Credit Union on behalf of the directors were \$56,432 (2011 - \$70,806).

Loans to directors, staff and equity investment

All loans, deposits and fees that were made to, received from, or charged to directors, officers or persons in whom any of them has a material interest during the year conform to the Credit Union's ordinary practices for members who are not directors or officers.

As at December 31, 2012, outstanding loans to directors, management, staff and equity investments totalled 2.53% (2011 - 2.62%), in aggregate, of the assets of the Credit Union.

25 Director and officer indemnification

The Credit Union indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Credit Union to the extent permitted by law.

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26 Contingencies

The Credit Union, in the course of its operations, is potentially subject to lawsuits. As a policy, the Credit Union will accrue for losses in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated.

27 Savings plan

The Credit Union maintains a savings plan for most employees. For eligible employees, the Credit Union contributes an amount between 5% and 10% of each participant's regular earnings. The net contributions and expense for the year were \$338,661 (2011 - \$304,238).

28 Comparative figures

Certain comparative figures in the consolidated statement of financial position and accompanying notes have been reclassified to conform to the financial statement presentation in the current year.

