

**Airline Financial Credit Union Limited**

**2010/2011 Annual Report**

**Experience Worth Sharing**

**Airline Financial Credit Union Limited**  
**61st**  
**Annual General Meeting**  
**May 19, 2011**

1. Call to Order
2. Chairperson's Remarks
3. Adoption of Minutes of last Meeting (May 27, 2010)
4. Report of the Board of Directors and CEO.
5. Audit Committee Report
6. Credit Report
7. Auditor's Report
8. Election Results for the Board of Directors
9. Appointment of Auditors
10. New business
11. Adjournment

*Refreshments to be served following the meeting*

## Report of the Board of Directors and CEO

What a difference a year can make! In our last report we discussed the need to get our funds out from low earning investments into loans and mortgages to our members. Well, we are happy to report that we over achieved our wildest expectations and increased our loan portfolio by more than 23%. This along with prudent cost control and adjusting our fees resulted in a before tax operating profit of over \$30,000.00 versus an operating loss last year of over \$242,000.00. This was even more significant given the huge impact on costs created by the introduction of the HST and a 30% increase in bonding insurance.

We also promised the membership that we would provide new services and products that would make dealing with your credit union a better, more efficient experience. In February of this year we introduced Mobile banking so members could access account information on their cell phones at no cost. In March we became a member of the Exchange Network which now allows our members to withdraw and deposit funds in over 2500 ATMs across Canada surcharge free. In addition, access to surcharge free ATMs across the US is also available with the added ability to use debit cards at most major retailers in the US. Finally, we are on track to issue new chip protected debit cards to our members by the end of this summer.

Going forward we are happy to tell you that we are in the process of opening a new branch in the Viscount Parking Facility providing full service including our own ATM. This new location will provide convenience to all members and potential members who work at BOTH Terminal 1 and Terminal 3. The new branch will be located near the entrance to the Link train which is used by most employees who work at Pearson. This location will help your credit union grow to its fullest potential. Once the Viscount office is open, we will be closing the Terminal 1 branch.

In closing, the Board, management and staff thank you, our members for your continuing trust, loyalty and for allowing Airline Financial to provide you with cost effective financial services.

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John Kennedy – Chair

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Gary Renouf - CEO

## **AUDIT COMMITTEE REPORT - 2011**

The Audit Committee fulfills responsibilities set out in the Credit Union & Caisses Populaire Act and accompanying regulations as well as other governance duties related to finance and risk management.

The Committee consists of three members appointed by the board from among the directors and has adopted a mandate to perform all the duties set out in the Act and Regulations thereto. The Committee must meet quarterly and during the past year met 5 times to carry out its duties, which included:

- Serving as the liaison between the Board of Directors and the external auditors
- Reviewing the annual financial statements
- Reviewing internal controls designed to safeguard assets, ensure the accuracy of financial reports and ensure compliance with policies and procedures
- Serving as the Board's liaison with the internal audit process
- Reviewing the policies, procedures and controls which relate to legislative compliance, including those pertaining to liquidity, capital adequacy, interest rate management, business interruption, money laundering and privacy.
- Serving as the Board's liaison with the Deposit Insurance Corporation of Ontario.

We are pleased to report that policies and procedures are being adhered to and your Credit Union continues to operate in a very satisfactory manner.

Respectfully submitted by the Audit Committee

Bob Newson, Chair  
Roland Klemme – Member  
Doug Currie - Member

## CREDIT REPORT

The Airline Financial Credit Union Limited is pleased to report that our total lending portfolio has increased by 23.52% or \$4,690,290 over fiscal year 2009/10. This compares very favorably and well above the industry combined average of 9.20% for loans and mortgages. The majority of the growth in our loan portfolio was due to mortgages.

While the trend reflects that personal loans are on the decline, there was minimal net change to our personal loan portfolio.

Our delinquency ratio of .35% is considerably lower than the previous year and well below industry average of 1.41%.

	2010	2009
PERSONAL LOANS/LOCS GRANTED	176	195
PERSONAL LOANS/LOCS DECLINED	56	64
TOTAL PERSONAL LOAN APPLICATIONS	232	259
\$-VALUE APPROVED PERSONAL LOANS	\$2,049,445	\$2,067,165
MORTGAGES GRANTED	47	32
\$-VALUE MORTGAGES	\$ 8,626,724	\$2,575,735
DELINQUENT ACCOUNTS OVER 90 DAYS	\$58,102.44	\$33,444
WRITTEN OFF LOANS	\$41,705	\$43,928
RECOVERIES BAD DEBT	\$7,935	\$ 26,486

In closing, I would like to take this opportunity to thank you, our members for your continued support and loyalty.

Respectfully submitted,  
Audrey Santos  
Branch Manager

\*Information on Industry Average is prepared by DICO using a variety of reports submitted to DICO from all Ontario's Credit Unions and Caisse Populaires.

**AIRLINE FINANCIAL CREDIT  
UNION LIMITED**

**FINANCIAL STATEMENTS**

**MARCH 31, 2011**

**AIRLINE FINANCIAL CREDIT UNION LIMITED**

**INDEX TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2011**

INDEPENDENT AUDITORS' REPORT	1 - 2
BALANCE SHEET	3
STATEMENT OF MEMBERS' EQUITY	4
STATEMENT OF COMPREHENSIVE INCOME	4
STATEMENT OF OPERATIONS	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 18
SCHEDULE OF EXPENSES	19

## **INDEPENDENT AUDITORS' REPORT**

To the Members of  
**Airline Financial Credit Union Limited:**

We have audited the accompanying financial statements of Airline Financial Credit Union Limited, which comprise the balance sheet as at March 31, 2011, and the statements of members' equity, comprehensive income, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Airline Financial Credit Union Limited as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Other Matter*

The financial statements of Airline Financial Credit Union Limited for the year ended March 31, 2010 were audited by another auditor who expressed an unmodified opinion on those statements on April 14, 2010.

*Retford Lane Bates LLP*

**Mississauga, Ontario  
April 18, 2011**

**Retford Lane Bates LLP  
Licensed Public Accountants**

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## BALANCE SHEET

AS AT MARCH 31, 2011

	2011	2010
<b>ASSETS</b>		
Cash resources	\$ 2,067,017	\$ 1,683,785
Investments (Note 3)	5,485,769	11,241,877
Loans to members (Note 4 and 5)	24,634,680	19,944,651
Other assets (Note 6)	133,179	164,266
Property and equipment (Note 7)	104,815	118,491
	<b>\$ 32,425,460</b>	<b>\$ 33,153,070</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>Liabilities</b>		
Members' deposits (Note 8)	\$ 29,695,721	\$ 30,482,566
Other liabilities (Note 9)	83,685	108,237
Member shares (Note 10)	66,523	76,014
	<b>29,845,929</b>	<b>30,666,817</b>
Retained earnings	2,680,892	2,655,073
Accumulated other comprehensive loss	(101,361)	(168,820)
	<b>\$ 32,425,460</b>	<b>\$ 33,153,070</b>

COMMITMENTS (Notes 4 and 15)

Approved by the Board

\_\_\_\_\_

Director

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Director

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## STATEMENT OF MEMBERS' EQUITY

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
<b>Retained earnings</b>		
Balance, beginning of the year	\$ 2,655,073	\$ 2,852,169
Net income (loss) for the year	25,819	(197,096)
Retained earnings, end of the year	2,680,892	2,655,073
<b>Accumulated other comprehensive loss, net of income taxes</b>		
Balance, beginning of the year	(168,820)	(219,862)
Other comprehensive income for the year	67,459	51,042
Balance, end of the year	(101,361)	(168,820)
<b>Total members' equity, end of the year</b>	<b>\$ 2,579,531</b>	<b>\$ 2,486,253</b>

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
Net income (loss) for the year	\$ 25,819	\$ (197,096)
<b>Other comprehensive loss, net of income taxes</b>		
Unrealized gains on available for sale investments	67,459	51,042
Other comprehensive income for the year	67,459	51,042
<b>Comprehensive income, for the year</b>	<b>\$ 93,278</b>	<b>\$ (146,054)</b>

See accompanying notes to the financial statements

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
<b>Interest income (Note 12)</b>		
Member loans	\$ 1,113,640	\$ 1,020,829
Investment income	140,555	224,091
	<u>1,254,195</u>	<u>1,244,920</u>
<b>Interest expense</b>		
Member deposits (Note 13)	537,122	646,262
	<u>537,122</u>	<u>646,262</u>
<b>Net interest income</b>	<b>717,073</b>	<b>598,658</b>
<b>Provision for impaired loans (Note 5)</b>	<b>7,000</b>	<b>44,513</b>
<b>Net interest income after loan losses</b>	<b>710,073</b>	<b>554,145</b>
<b>Other income</b>	<b>262,231</b>	<b>235,695</b>
<b>Net interest and other income</b>	<b>972,304</b>	<b>789,840</b>
<b>Operating expenses</b>		
Administrative (Schedule)	489,389	573,029
Amortization of capital assets	34,094	39,387
Deposit insurance	30,172	28,312
Salaries and benefits	387,913	391,531
	<u>941,568</u>	<u>1,032,259</u>
<b>Income (loss) before income taxes</b>	<b>30,736</b>	<b>(242,419)</b>
<b>Income taxes (recovered)</b>		
Current	-	(25,312)
Future	4,917	(20,011)
	<u>4,917</u>	<u>(45,323)</u>
<b>Net income (loss) for the year</b>	<b>\$ 25,819</b>	<b>\$ (197,096)</b>

See accompanying notes to the financial statements

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
<b>Cash flows from operating activities</b>		
Net income (loss) for the year	\$ 25,819	\$ (197,096)
Items not affecting cash:		
Amortization	34,094	39,387
Provision for impaired loans	7,000	44,513
Future income taxes	4,917	(20,011)
Gain (loss) on sale of investments	-	(17,154)
	<u>71,830</u>	<u>(150,361)</u>
Changes in non-cash working capital:		
Other current assets	26,170	28,307
Other liabilities	(24,553)	24,083
	<u>73,447</u>	<u>(97,971)</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(20,418)	(21,352)
Loans to members - net	(4,697,029)	328,599
Investments	5,823,568	(3,380,727)
	<u>1,106,121</u>	<u>(3,073,480)</u>
<b>Cash flows from financing activities</b>		
Members' deposits	(786,845)	1,045,659
Member shares	(9,491)	(2,991)
	<u>(796,336)</u>	<u>1,042,668</u>
<b>Increase (decrease) in cash resources</b>	<b>383,232</b>	<b>(2,128,783)</b>
<b>Cash resources, beginning of the year</b>	<b>1,683,785</b>	<b>3,812,568</b>
<b>Cash resources, end of the year</b>	<b>\$ 2,067,017</b>	<b>\$ 1,683,785</b>
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 582,754	\$ 577,026
Income taxes paid/(refunded)	(24,446)	(33,437)

See accompanying notes to the financial statements

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

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### Nature of business

Airline Financial Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994, and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial products and services to members throughout Ontario.

### 1. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with the preceding year. Outlined below are the accounting policies considered to be significant.

#### The Credit Unions and Caisses Populaires Act, 1994 (the "Act")

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

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the year. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

#### Investments

All investments have been designated as "available for sale" and consequently are carried at fair value, based on published market prices. Unrealized gains and losses are recognized directly in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in accumulated other comprehensive income, is recognized in net income.

#### Property and equipment

Property and equipment are stated at acquisition cost. Amortization is calculated using the methods set out below applied to the cost of the assets, at annual rates based on their estimated useful lives as follows:

Asset	Rate	Method
Furniture and equipment	5-10 years	straight-line
Computer equipment	5 years	straight-line
Leasehold improvements	Term of lease	straight line

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

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### 1. Significant accounting policies *(continued)*

#### **Loans to members**

Loans to members are stated at amortized cost. Interest income is recorded using the effective interest rate method over the terms of the loans. Loan fee income that contributes to the overall yield of a loan is incorporated into the effective interest rate and recognized in income over the term of the loan.

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

Once a loan is classified as impaired, all previously accrued interest is reversed and charged against current income unless the amount is fully secured. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

#### **Allowance for impaired loans**

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

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

#### **Members' deposits**

Members' deposits are recorded at amortized cost. Interest expense is recorded using the effective interest rate method over the terms of the deposits.

#### **Member shares**

The Credit Union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of members' share accounts and the related distributions paid on such financial instruments. In accordance with these recommendations, the Credit Union's shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification. Dividends or other payments related to member shareholdings are reported in the statement of operations and retained earnings as a financial expense.

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

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### 1. Significant accounting policies (*continued*)

#### Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

#### Foreign currencies

The monetary assets and liabilities of the Credit Union denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the year. Exchange gains or losses are included in operations.

### 2. Future changes in accounting policy

In January 2010, the Canadian Accounting Standards Board introduced International Financial Reporting Standards (IFRS) into Part 1 of the Canadian Institute of Chartered Accountants Handbook to replace Canadian GAAP for publicly accountable enterprises, including credit unions, for interim and annual periods beginning on or after April 1, 2011, including the restatement of the comparative period financial statements to reflect transition to the IFRS at April 1, 2010 (the "Transition Date").

The Credit Union has assessed the differences between the current accounting policies and those provided under IFRS, as well as the elections and policy choices available on adoption. The area of greatest impact surrounds the determination of the loan loss allowance. Nevertheless, the impact of any transition adjustment is not expected to negatively impact either retained earnings or regulatory capital.

### 3. Investments

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	2011	2010
<b><u>Available for Sale</u></b>		
Bankers acceptances and corporate bonds	\$ 2,981,131	\$ 8,173,211
Provincial Government Bonds	92,000	92,000
Guaranteed investment certificates	1,833,859	2,475,000
Asset backed commercial paper	330,535	251,535
Canadian equities	188,940	208,275
Accrued interest	59,304	41,856
	<b>\$ 5,485,769</b>	<b>\$ 11,241,877</b>

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# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 3. Investments (continued)

#### Asset backed commercial paper ("ABCP")

The ABCP, issued by a number of trusts impacted by recent liquidity issues, is subject to a standstill agreement. The banks have agreed in principle to a long-term proposal and interim agreement (Montreal Accord) to have the paper converted into long-term floating rate notes, maturing no earlier than the scheduled maturity of the underlying assets. Continuing uncertainties regarding the value of the assets which underlines the ABCP, the amount and timing of cash flows and outcome of the restructuring process could give rise to a further material change in the value of the Credit Union's investments, which could impact future earnings.

A provision for loss in the amount of \$126,000 of the original cost has been recorded to date.

### 4. Loans to members

	2011	2010
Mortgages	\$ 21,665,663	\$ 16,772,185
Personal	3,063,575	3,303,010
Accrued interest	36,642	27,426
	24,765,880	20,102,621
Less allowance for impaired loans (Note 5)	(131,200)	(157,970)
	\$ 24,634,680	\$ 19,944,651

The loan classifications set out above are as defined in the regulations to the Act.

Mortgage loans are repayable to the Credit Union in blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty-five years.

Personal loans are repayable to the Credit Union in blended principal and interest instalments over a maximum amortization period of seven years. Personal line of credit loans, which are classified as personal loans, are repayable on a revolving credit basis which requires minimum monthly repayments. Personal loans have various repayment terms.

As at March 31, 2011, the Credit Union was committed to the issuance of mortgage loans to members in the aggregate amount of \$1,734,000 (2010 - \$502,000).

As at March 31, 2011, the approved and unused line of credit limits amount to \$3,725,253 (2010 - \$2,402,861).

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 5. Allowance for impaired loans

	2011		2010	
Balance at beginning of year	\$	157,970	\$	130,898
Loans written off		(41,705)		(43,928)
Loans recovered		7,935		26,487
		124,200		113,457
Provision charged to operations		7,000		44,513
Balance at end of year	\$	131,200	\$	157,970

A loan is classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured. Fully secured loans are classified as impaired after a delinquency period of 180 days. Also, a loan is classified as impaired when, in the opinion of management, there is no longer reasonable assurance of timely collectibility of principal or interest.

The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. Additionally, the Credit Union has a maximum limit on the value of loans to an individual and connected parties. The maximum amount varies depending on the type of loan.

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with DICO's by-law governing such allowances.

	Allowance for impaired loans balance		Aggregate impaired loans	
	2011	2010	2011	2010
Mortgages	\$ -	\$ 16,634	\$ -	\$ 16,634
Personal	81,537	71,046	85,937	71,046
General	49,663	70,290	-	-
	\$ 131,200	\$ 157,970	\$ 85,937	\$ 87,680

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 the loans that are past due, but not considered impaired.

	2011	2010
Mortgages	\$ 474,364	\$ 401,873
Personal	102,792	164,852
Total	\$ 577,156	\$ 566,725

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 6. Other assets

	2011	2010
Prepaid expenses	\$ 82,747	\$ 63,330
Income taxes receivable	9,432	33,867
Future income taxes	41,000	67,069
	<b>\$ 133,179</b>	<b>\$ 164,266</b>

### 7. Capital assets

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Furniture and equipment	\$ 127,519	\$ 104,105	\$ 23,414	\$ 34,304
Computer equipment	89,851	56,452	33,399	32,368
Leasehold improvements	97,959	49,957	48,002	51,819
	<b>\$ 315,329</b>	<b>\$ 210,514</b>	<b>\$ 104,815</b>	<b>\$ 118,491</b>

Amortization expense for the year amounted to \$34,094 (2010 - \$39,387).

### 8. Members' deposits

	2011	2010
Chequing accounts	\$ 4,664,522	\$ 4,467,117
Demand deposits	8,272,934	8,464,778
Term deposits	5,044,444	5,258,866
Registered savings plans	7,135,760	7,491,425
Registered income funds	4,426,341	4,603,028
Accrued interest	151,720	197,352
	<b>\$ 29,695,721</b>	<b>\$ 30,482,566</b>

#### Chequing and demand savings accounts

Chequing and demand savings accounts are due on demand and bear interest at variable rates which depend upon the type of account and the balance maintained.

#### Term deposits

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity.

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 8. Members' deposits *(continued)*

#### Registered plans

Concentra Trust is the trustee of the registered plans offered to the members. Under an agreement with the trust company, members' contributions to these plans, as well as income earned on them, are deposited in the Credit Union. On withdrawal, payment of the plan proceeds is made to the members or their designates, by the Credit Union on behalf of the trust company.

### 9. Other liabilities

	2011	2010
Accounts payable and accrued charges	\$ 82,425	\$ 90,963
Certified cheques	1,260	17,274
	<u>\$ 83,685</u>	<u>\$ 108,237</u>

### 10. Member shares

As a condition of membership, each member must hold 1 share with an issue price of \$25. As at March 31, 2011, there were 2,666 members (2010 - 3,041). Shares are redeemable only on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

Dividends on membership shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet regulatory capital requirements of the Act described in Note 11 to the financial statements.

### 11. Capital adequacy

The Credit Union's capital management policy outlines the overall objectives to ensure that the Credit Union has sufficient capital needed to address the inherent risks of the Credit Union, ensure the long-term viability of the Credit Union, and support its current and future operating plans.

The processes for managing capital include setting the policy for capital management, setting policies in related areas, establishing budgets and reporting regularly to the board of directors regarding financial results and capital adequacy, in relation to the statutory minimum. Under the Act and accompanying regulations, credit unions are required to maintain regulatory capital of at least 5.0% of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 6.0% of total assets.

As at March 31, 2011, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital, as outlined in the following table:

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 11. Capital adequacy (continued)

Total regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

	2011	2010
<b>Tier 1 capital</b>		
Membership shares	\$ 66,523	\$ 76,014
Unrealized losses on equity investments	(16,235)	-
Retained earnings	2,680,892	2,655,073
<b>Total Tier 1 capital</b>	<b>2,731,180</b>	<b>2,731,087</b>
<b>Tier 2 capital</b>		
Non-specific loan loss provisions	49,663	70,290
<b>Total Tier 2 capital</b>	<b>49,663</b>	<b>70,290</b>
<b>Total Regulatory Capital</b>	<b>\$ 2,780,843</b>	<b>\$ 2,801,377</b>
<b>Leverage test ratio:</b>	<b>8.6%</b>	<b>8.5%</b>

### 12. Interest income

Interest income is generated as follows:

	2011	2010
Mortgage loans	\$ 832,903	\$ 751,139
Personal loans	280,737	269,690
Member loans	1,113,640	1,020,829
Investments classified as held to maturity	33	-
Investments classified as available for sale	140,522	224,091
Financial assets other than those held for trading	1,254,195	1,244,920
Investments classified as held for trading	-	-
	<b>\$ 1,254,195</b>	<b>\$ 1,244,920</b>

### 13. Interest expense on member deposits

Interest expense on member deposits is generated as follows:

	2011	2010
Demand	\$ 72,501	\$ 70,822
Term	135,222	172,144
Registered savings plans	195,383	227,793
Registered income funds	134,016	175,503
	<b>\$ 537,122</b>	<b>\$ 646,262</b>

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

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### 14. Income taxes

The Credit Union's basic statutory tax rate is approximately 16%. Any future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes.

### 15. Commitments

The Credit Union has entered into commitments under operating leases which expire at various dates to January 2016. The minimum annual rents under these leases are:

2012	\$	113,552
2013		76,763
2014		67,221
2015		69,238
2016		59,164

### 16. Restricted party transactions

As at March 31, 2011, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$168,183 (2010 - \$147,365). There was no allowance for impaired loans required in respect of these loans as at March 31, 2011.

Restricted Party is defined to include a person, and the person's relative, spouse, or relative of the spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

Honoraria and reimbursements of certain expenses of the Board of Directors and committees amounted to \$19,615 (2010 - \$17,999).

### 17. Fair value of financial instruments

The estimated fair values of the Credit Union's financial instruments and the valuation techniques and assumptions are set out below. The valuations may vary significantly based on the judgement used in estimating the amount and timing of future cash flows. As a result, the estimated fair values are not necessarily comparable across different organizations and may not be realizable. The estimation of fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

	Book value	Estimated fair value	2011 Difference	2010 Difference
<b>Assets</b>				
Cash resources	\$ 2,067,017	\$ 2,067,017	\$ -	\$ -
Investments	5,485,769	5,485,769	-	-
Loans to members	24,634,680	24,831,232	196,552	-
<b>Liabilities</b>				
Members' deposits	(29,695,721)	(29,747,459)	(51,738)	-

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

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### 17. Fair value of financial instruments *(continued)*

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

- (a) The fair value of cash resources are assumed to approximate their book value due to their short-term nature.
- (b) The fair value of investments are based on quoted market values.
- (c) The estimated fair value of variable rate loans and deposits are assumed to be equal to book value as the interest rates reprice to market on a periodic basis.
- (d) The estimated fair value of fixed rate loans and deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

### 18. Nature and extent of risks arising from financial instruments

#### Liquidity risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union will be unable to pay obligations when they fall due, including the withdrawal of members' deposits or the funding of loans to members.

The Credit Union's liquidity management policy outlines the processes for managing liquidity risk, including maintaining high quality liquid investments, maintaining a credit facility with a chartered bank, and monthly reporting to the board of directors regarding the Credit Union's liquidity level. In addition, the Credit Union continually monitors cash flows, the significance of large deposits and loan commitments relative to its liquidity.

Cash resources consists of cash on hand and on deposit and member payroll deductions in transit. The Credit Union has available a credit facility of \$1,500,000 (2010 - \$1,500,000) with a chartered bank, which is secured by an assignment of certain investments. At March 31, 2011, the credit facility was not utilized.

The liquidity ratio represents the ratio of assets qualifying as liquid assets under the Act to the sum of members' deposits and borrowings. The Credit Union is subject to a statutory requirement of maintaining a liquidity ratio of no less than 5.0%. At March 31, 2011, liquid assets amount to 16.6% (2010 - 20.0%) of deposits and borrowings and consist of the following:

	2011	2010
Cash	\$ 2,139,617	\$ 1,683,785
Investment savings	972,642	1,909,188
Guaranteed investment certificates	1,800,000	2,475,000
	<u>\$ 4,912,259</u>	<u>\$ 6,067,973</u>

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 18. Nature and extent of risks arising from financial instruments *(continued)*

#### Credit risk

The business of the Credit Union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a borrower to meet his or her financial obligations.

The Credit Union's credit management policy sets out the processes for managing credit risk, including the following:

- Setting a maximum amount of credit to an individual and connected parties;
- Setting a total limit by loan type;
- Performing a credit analysis (e.g. review and assess the borrower's credit history, ability to repay the loan, and character);
- Obtaining collateral when appropriate;
- Employing risk based pricing;
- Establishing loan approval limits;
- Limiting the concentration by industry for commercial loans;
- Reporting monthly to the Board of Directors regarding loan activities, as required by the Board and the Act; and
- Procedures followed for loans in arrears.

The Credit Union's exposure to the risk of loss on impaired or potentially impaired loans is set out in Note 5.

#### Interest rate risk

The business of the Credit Union necessitates the management of interest rate risk. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings, due to mismatches in the maturities and interest rate types (fixed vs. variable) of its financial liabilities and financial assets.

The Credit Union's interest rate risk policy sets out the processes for managing interest rate risk, including establishing a limit of the exposure to interest rate fluctuations, stating the method used to measure interest rate risk, and reporting monthly to the Board of Directors the earnings at risk.

The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments:

	Variable Rate	Less than one year	One to seven years	Non-rate Sensitive	Total	Effective Interest Rate
Cash resources	\$ 1,712,822	\$ -	\$ -	\$ 354,195	\$ 2,067,017	-
Investments	1,492,117	3,101,972	891,680	-	5,485,769	2.00%
Loans to members	7,569,770	1,955,513	15,109,397	-	24,634,680	4.81%
<b>Total</b>	<b>10,774,709</b>	<b>5,057,485</b>	<b>16,001,077</b>	<b>354,195</b>	<b>32,187,466</b>	
Members' deposits	13,576,762	8,306,303	7,812,656	-	29,695,721	1.66%
Member shares	-	-	-	66,523	66,523	-
<b>Total</b>	<b>13,576,762</b>	<b>8,306,303</b>	<b>7,812,656</b>	<b>66,523</b>	<b>29,762,244</b>	
<b>Matching gap</b>	<b>\$ (2,802,053)</b>	<b>\$ (3,248,818)</b>	<b>\$ 8,188,421</b>	<b>\$ 287,672</b>	<b>\$ 2,425,222</b>	

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

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**18. Nature and extent of risks arising from financial instruments *(continued)***

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union has established a policy for its earnings at risk to a possible change in interest rates to within the regulatory requirement of 15 basis points of assets. At March 31, 2011, management estimates that its exposure to an increase in interest rates is less than one basis point of assets.

**Foreign currency exchange risk**

Foreign currency exchange risk refers to the potential impact of changes in foreign exchange rates on the Credit Union's earnings when balances of its foreign currency liabilities are not matched with the balances of its foreign currency assets.

It is the policy of the Credit Union to mitigate exposure to foreign exchange rate fluctuations by matching its foreign currency assets to its foreign currency liabilities (i.e. members' deposits denominated in US dollars). Consequently, the impact on earnings of foreign currency exchange risk is not significant.

Net foreign exchange gains of \$26,348 (2010 - \$17,496) have been included in other income on the statement of operations for the year ended March 31, 2011.

**19. Comparative figures**

The prior year's comparative figures were examined by other auditors. Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

# AIRLINE FINANCIAL CREDIT UNION LIMITED

## SCHEDULE OF EXPENSES

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
<b>Administrative</b>		
ATM charges	\$ 44,600	\$ 50,094
Advertising and promotion	13,550	35,116
Annual meeting	1,557	720
Bank charges	68,255	88,560
Board and committee	19,615	17,999
Computer expense	48,170	56,454
Education and training	5,503	1,265
Insurance	43,736	41,067
Loan costs	10,273	14,356
Occupancy	128,067	123,205
Office and general	12,354	42,016
Professional fees	63,724	76,064
Registered plan fees	6,400	5,775
Telephone	11,725	12,205
Travel	11,860	8,133
	<b>\$ 489,389</b>	<b>\$ 573,029</b>

See accompanying notes to the financial statements