

**BELGIAN-ALLIANCE CREDIT
UNION LTD.**

Financial Statements
For the year ended December 31, 2011 and 2010

BELGIAN-ALLIANCE CREDIT UNION LTD.

Financial Statements

For the year ended December 31, 2011 and 2010

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Independent Auditor's Report

To the Members of BELGIAN-ALLIANCE CREDIT UNION LTD.

We have audited the accompanying financial statements of **BELGIAN-ALLIANCE CREDIT UNION LTD.**, which comprise the balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of comprehensive income, statements of changes in members' equity and statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Credit Union's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditor's 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 of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union'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 Credit Union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 **BELGIAN-ALLIANCE CREDIT UNION LTD.** as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

BDO Canada LLP

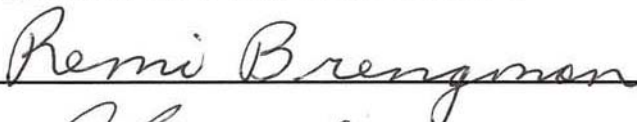
Chartered Accountants


Winnipeg, Manitoba
March 20, 2012

BELGIAN-ALLIANCE CREDIT UNION LTD.
Balance Sheet

	December 31 2011	December 31 2010	January 1 2010
Assets			
Funds on hand and on deposit (Note 4)	\$ 8,203,914	\$ 3,330,586	\$ 10,930,164
Income taxes recoverable	-	-	71,004
Other assets (Note 5)	160,853	85,114	90,762
Investments (Note 6)	30,677,567	10,664,981	6,397,042
Loans to members (Notes 7 and 8)	127,746,604	100,549,969	92,880,273
Property, plant and equipment (Note 9)	1,798,630	1,921,698	1,926,261
	\$ 168,587,568	\$ 116,552,348	\$ 112,295,506
Liabilities and Members' Equity			
Income taxes payable	\$ 72,972	\$ 153,679	-
Other liabilities (Note 10)	632,985	1,032,769	939,092
Deposits payable (Note 11)	158,211,154	106,472,247	103,396,579
Deferred income tax liability (Note 13)	44,000	24,000	25,200
	158,961,111	107,682,695	104,360,871
Commitments (Note 23)			
Members' Equity (Note 22)			
Members' shares (Note 14)	901,921	851,005	802,977
Provision for issue of common shares (Note 15)	150,000	199,206	149,043
Retained earnings	8,574,536	7,819,442	6,982,615
	9,626,457	8,869,653	7,934,635
	\$ 168,587,568	\$ 116,552,348	\$ 112,295,506

Approved on behalf of the Board of Directors:

 Director

 Director

BELGIAN-ALLIANCE CREDIT UNION LTD.
Statement of Comprehensive Income

For the year ended December 31	2011	2010
Revenue		
Interest on loans to members	\$ 5,253,192	\$ 4,918,827
Investment income		
Liquidity deposits	414,639	297,691
CUCM shares	45,625	10,800
	<u>5,713,456</u>	<u>5,227,318</u>
Cost of Funds		
Interest paid to members	2,329,951	2,171,216
Interest paid to non-members	641,457	265,796
	<u>2,971,408</u>	<u>2,437,012</u>
Gross financial margin	<u>2,742,048</u>	<u>2,790,306</u>
Operating Expenses		
Personnel (Note 17)	1,108,217	961,596
Administrative (Note 18)	678,258	616,755
Occupancy	400,601	389,369
Members' security	118,374	116,516
Organizational	129,089	86,846
Distributions to members (Note 15)	150,000	200,000
	<u>2,584,539</u>	<u>2,371,082</u>
Gross operating expenses	<u>2,584,539</u>	<u>2,371,082</u>
Less other income (Note 16)	<u>661,177</u>	<u>713,300</u>
	<u>1,923,362</u>	<u>1,657,782</u>
Gross operating income	<u>818,686</u>	<u>1,132,524</u>
Provision for impaired loans (Note 8)	<u>(58,179)</u>	<u>46,655</u>
Income before income taxes	<u>876,865</u>	<u>1,085,869</u>
Provision for income taxes (Note 13)		
Current	80,262	229,871
Deferred	20,000	(1,200)
	<u>100,262</u>	<u>228,671</u>
Net and comprehensive income for the year	<u>\$ 776,603</u>	<u>\$ 857,198</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Statement of Changes in Members' Equity

For the year ended December 31

2011

	Provision for Issue of Common Shares	Members' Shares	Retained Earnings	Total
Balance at January 1, 2010	\$ 149,043	\$ 802,977	\$ 6,982,615	\$ 7,934,635
Net income for the year	-	-	857,198	857,198
Distributions to members (Note 14)	200,000	-	(20,371)	179,629
Issue of members' shares	(149,837)	200,697	-	50,860
Redemption of members' shares	-	(132,771)	-	(132,771)
Transfer (to) from registered deposits	-	(19,898)	-	(19,898)
Balance on December 31, 2010	\$ 199,206	\$ 851,005	\$ 7,819,442	\$ 8,869,653
Net income for the year	-	-	776,603	776,603
Distributions to members (Note 14)	150,000	-	(21,509)	128,491
Issue of members' shares	(199,206)	200,571	-	1,365
Redemption of members' shares	-	(124,786)	-	(124,786)
Transfer (to) from registered deposits	-	(24,869)	-	(24,869)
Balance on December 31, 2011	\$ 150,000	\$ 901,921	\$ 8,574,536	\$ 9,626,457

BELGIAN-ALLIANCE CREDIT UNION LTD.

Statement of Cash Flows

For the year ended December 31	2011	2010
Cash Flows from Operating Activities		
Net income for the year	\$ 776,603	\$ 857,198
Adjustments for		
Interest revenue	(5,713,456)	(5,227,318)
Interest expense	2,971,408	2,437,012
Depreciation expense	133,563	136,223
Provision for impaired loans	(58,179)	46,655
Patronage fund	150,000	200,000
Loss on disposal of property, plant and equipment	-	2,738
Transfer to registered deposits	(24,869)	(19,898)
Deferred income taxes	20,000	(1,200)
	<u>(1,744,930)</u>	<u>(1,568,590)</u>
Change in other assets and liabilities	(869,109)	99,325
Change in income taxes payable	(80,707)	224,683
	<u>(949,816)</u>	<u>324,008</u>
Changes in member activities (net)		
Change in loans to members	(27,110,540)	(7,718,188)
Change in deposits payable	51,622,123	3,194,950
	<u>24,511,583</u>	<u>(4,523,238)</u>
Cash flows related to interest, dividends, and income taxes		
Interest received on loans to members	5,225,276	4,920,664
Interest received on investments	435,054	291,921
Interest paid on deposits payable	(1,841,090)	(2,290,498)
Interest paid on borrowings	(641,457)	(265,796)
	<u>3,177,783</u>	<u>2,656,291</u>
Total cash flows from operating activities	<u>24,994,620</u>	<u>(3,111,529)</u>
Cash Flows from Investing Activities		
Net increase in investments	12,624	(51,369)
Net purchase of property, plant and equipment	(10,495)	(134,398)
Total cash flows from investing activities	<u>2,129</u>	<u>(185,767)</u>
Cash Flows from Financing Activities		
Issue of common and surplus shares	1,365	50,860
Redemption of common and surplus shares	(124,786)	(132,771)
Dividends on shares (net of income tax recovery)	-	(20,371)
Total cash flows from financing activities	<u>(123,421)</u>	<u>(102,282)</u>
Net increase (decrease) in cash and cash equivalents	<u>24,873,328</u>	<u>(3,399,578)</u>
Cash and cash equivalents, beginning of year	<u>12,830,586</u>	<u>16,230,164</u>
Cash and cash equivalents, end of year	<u>\$ 37,703,914</u>	<u>\$ 12,830,586</u>
Comprised of the following:		
Funds on hand and on deposit	\$ 8,203,914	\$ 3,330,586
Credit Union Central of Manitoba term deposits	29,500,000	9,500,000
	<u>\$ 37,703,914</u>	<u>\$ 12,830,586</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

Belgian-Alliance Credit Union (the "Credit Union") is incorporated under the Credit Unions and Caisses Populaires Act of the Province of Manitoba ("The Act") and is a member of Credit Union Central of Manitoba ("CUCM"). The Credit Union operates as one operating segment in the loans and deposit taking industry in Manitoba. Products and services offered to its members include consumer and commercial loans and mortgages, chequing and savings accounts, term deposits, registered deposits, automated banking machines ("ABMs"), debit and credit cards, internet banking and sale of mutual funds. The Credit Union has three branches located in Winnipeg with the head office being located at 1177 Portage Avenue, Winnipeg, Manitoba.

These financial statements have been authorized for issue by the Board of Directors on March 20, 2012.

Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). This is the first time that the Credit Union has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 3.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and current accounts with CUCM and term deposits held with CUCM for liquidity purposes less borrowings that are repayable on demand.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Investments

CUCM - Liquidity deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost, which approximates fair value.

CUCM - Shares

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in net income.

Loans to Members

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Loans to members are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Loans to Members (continued)

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on loans receivable carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

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. Any subsequent reversal of an impairment loss is recognized in net income.

Bad Debts Written Off

Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and equipment	5 to 10 years
Computer equipment	5 to 6.5 years
Security equipment	20 years
Signage	5 years
Building improvements	10 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

Impairment of Non-Financial Assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income.

Income Taxes

Income tax expense comprises current and deferred income tax. Current and deferred income tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Deferred income tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base.

Recognition of deferred income tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those income instances where it is probable that future taxable profit will be available which allow the deferred income tax asset to be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred income tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/assets are settled/recovered.

Deposits Payable

All deposits payable are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Deposits payable are subsequently measured at amortized cost, using the effective interest rate method.

Pension Plan

The Credit Union participates in a multi-employer defined contribution pension plan recognizing contributions as an expense in the year to which they relate as disclosed in Note 12.

Other Liabilities

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Provisions

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

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Members' Shares

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.

Revenue Recognition

Interest on loans is recorded using the effective interest method except for loans which are considered impaired. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for impaired loans as an adjustment to the specific allowance.

Investment income is recorded using the effective interest method, except as it relates to adjustments in the rates received from Credit Union Central, these are recorded when payment is received.

Commissions, service charges and other revenue are recognized as income when the related service is provided or entitlement to receive income is earned.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "finance lease"), the asset is treated as if it had been purchased outright.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

- i. IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.
- ii. IFRS 13 Fair Value Measurement defines fair value, provides guidance on the measurement of fair value, and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another standard requires or permits the item to be measured at fair value (with limited exceptions). The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Standards, Amendments and Interpretations Not Yet Effective (continued)

- iii. IFRS 7 Financial Instruments ("IFRS 7") was issued by the IASB on October 7, 2010 and contains amendments to the existing IFRS 7. The amendments to IFRS 7 enhance disclosure requirements about transfers of financial assets. The Credit Union is in the process of evaluating the impact of the new standard.

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided to early adopt. The Credit Union has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Credit Union to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment is effective for year ends beginning on or after July 1, 2011 however, the Credit Union has early adopted the amendment. The impact of the amendment and early adoption is that the Credit Union only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

None of the other new standards, interpretations and amendments, which are effective for the Credit Union's accounting periods beginning after January 1, 2012 and which have not been adopted early, are expected to have a material effect on the Credit Union's future financial statements.

2. Critical Accounting Estimates and Judgments

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair Value of Financial Instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in Note 20.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

2. Critical Accounting Estimates and Judgments (continued)

Provision for impaired loans

In determining whether an impairment loss should be recorded in the statement of comprehensive income the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group loans receivable with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 8.

Income Taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the income tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Property, Plant and Equipment

The estimated useful life, residual value and depreciation method chosen are the Credit Union's best estimate of such and are based on industry norms, historical experience of management and other estimates. These estimates also consider the period and distribution of future cash inflows.

Readers are cautioned that this list is not exhaustive and other items may also be affected by estimates and judgments.

3. First Time Adoption of International Financial Reporting Standards

IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Credit Union has applied IFRS is January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Credit Union will be December 31, 2011. Therefore, the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and the opening IFRS balance sheet at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

3. First Time Adoption of International Financial Reporting Standards (continued)

In preparing its opening IFRS balance sheet, the Credit Union has adjusted amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following notes and tables.

IFRS 1 Exemptions and Exceptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Optional Exemptions

Business Combinations

The Credit Union has elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to its transition date and such business combinations have not been restated.

Compound Financial Instruments

The Credit Union has elected not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition

The Credit Union has elected to apply day one fair value gains and losses prospectively from the date of transition to IFRS.

Borrowing Costs

The Credit Union has elected to apply the transitional provisions of IAS 23, Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the transition date.

Mandatory Exceptions

Derecognition of Financial Assets and Liabilities

The Credit Union has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the date of transition to IFRS. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the date of transition to IFRS in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39 derecognition requirements.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

3. First Time Adoption of International Financial Reporting Standards (continued)

Estimates

The estimates previously made by the Credit Union under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Credit Union has not used hindsight to revise estimates.

Reconciliation of Equity and Comprehensive Income

In preparing these financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP financial statements to comply with IFRS. The comparative figures were restated to reflect these adjustments. The following reconciliations and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to IFRS on members' equity, net income and comprehensive income:

Balance Sheet as at January 1, 2010 – Transition Date

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Funds on hand and on deposit		\$ 10,930,164	\$ -	10,930,164
Income taxes recoverable	(iii)	-	71,004	71,004
Other assets	(i) (iii)	297,429	(206,667)	90,762
Investments		6,397,042	-	6,397,042
Loans to members	(i)	92,811,423	68,850	92,880,273
Property, plant and equipment		1,926,261	-	1,926,261
		<u>112,362,319</u>	<u>(66,813)</u>	<u>112,295,506</u>
Liabilities				
Other liabilities	(ii) (iii)	972,292	(33,200)	939,092
Deposits payable		103,396,579	-	103,396,579
Deferred income tax liability	(ii)	-	25,200	25,200
		<u>104,368,871</u>	<u>(8,000)</u>	<u>104,360,871</u>
Members' Equity				
Members' shares		802,977	-	802,977
Provision for issue of common shares		149,043	-	149,043
Retained earnings	(iv)	7,041,428	(58,813)	6,982,615
		<u>7,993,448</u>	<u>(58,813)</u>	<u>7,934,635</u>
		<u>\$ 112,362,319</u>	<u>\$ (66,813)</u>	<u>\$ 112,295,506</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

3. First Time Adoption of International Financial Reporting Standards (continued)

Balance Sheet as at December 31, 2010

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Funds on hand and on deposit		\$ 3,330,586	\$ -	3,330,586
Other assets	(i)	168,995	(83,881)	85,114
Investments		10,664,981	-	10,664,981
Loans to members	(i)	100,524,958	25,011	100,549,969
Property, plant and equipment		1,921,698	-	1,921,698
		<u>116,611,218</u>	<u>(58,870)</u>	<u>116,552,348</u>
Liabilities				
Income taxes payable	(iii)	-	153,679	153,679
Other liabilities	(ii) (iii)	1,218,448	(185,679)	1,032,769
Deposits payable		106,472,247	-	106,472,247
Deferred income tax liability	(ii)	-	24,000	24,000
		<u>107,690,695</u>	<u>(8,000)</u>	<u>107,682,695</u>
Members' Equity				
Members' shares		851,005	-	851,005
Provision for issue of common shares		199,206	-	199,206
Retained earnings	(iv)	7,870,312	(50,870)	7,819,442
		<u>8,920,523</u>	<u>(50,870)</u>	<u>8,869,653</u>
		<u>\$ 116,611,218</u>	<u>(58,870)</u>	<u>\$ 116,552,348</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

3. First Time Adoption of International Financial Reporting Standards (continued)

Statement of Comprehensive Income for the Year Ended December 31, 2010

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Interest Revenue				
Interest on loans to members		\$ 4,918,827	\$ -	4,918,827
Investment income		308,491	-	308,491
		<u>5,227,318</u>	<u>-</u>	<u>5,227,318</u>
Cost of Funds				
Interest paid to members		2,171,216	-	2,171,216
Interest paid to non-members		265,796	-	265,796
		<u>2,437,012</u>	<u>-</u>	<u>2,437,012</u>
Gross financial margin		<u>2,790,306</u>	<u>-</u>	<u>2,790,306</u>
Operating Expenses				
Personnel		961,596	-	961,596
Administrative		616,755	-	616,755
Occupancy		389,369	-	389,369
Members' security		116,516	-	116,516
Organizational		86,846	-	86,846
Distributions to members		200,000	-	200,000
Gross operating expenses		<u>2,371,082</u>	<u>-</u>	<u>2,371,082</u>
Less other income		<u>713,300</u>	<u>-</u>	<u>713,300</u>
Gross operating income		1,132,524	-	1,132,524
Provision for impaired loans	(i)	<u>54,598</u>	<u>(7,943)</u>	<u>46,655</u>
Income before income taxes		1,077,926	7,943	1,085,869
Provision for income taxes		<u>228,671</u>	<u>-</u>	<u>228,671</u>
Net and comprehensive income for the year		<u>\$ 849,255</u>	<u>\$ 7,943</u>	<u>\$ 857,198</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

3. First Time Adoption of International Financial Reporting Standards (continued)

Statement of Cash Flows for the Year Ended December 31, 2010

	Sub-note (iv)	Pre-changeover Canadian GAAP	Adjustments	IFRS
Cash flows from operating activities	(a)(b)(c)	\$ 1,479,712	\$ (4,591,241)	\$ (3,111,529)
Cash flows from investing activities	(b)(d)	3,067,142	(3,252,909)	(185,767)
Cash flows from financing activities	(c)	(12,146,432)	12,044,150	(102,282)
Net increase (decrease) in cash and cash equivalents		(7,599,578)	4,200,000	(3,399,578)
Cash and cash equivalents, beginning of year	(d)(e)	10,930,164	5,300,000	16,230,164
Cash and cash equivalents, end of year		\$ 3,330,586	\$ 9,500,000	\$ 12,830,586

Explanations for the IFRS adjustments are as follows:

(i) Loans to members

Under pre-changeover Canadian GAAP the Credit Union provided for impaired loans receivable on a specific loan basis along with a non-specific provision. Under IFRS the Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience. As a result the allowance for impaired loans was reduced by \$(66,813) at January 1, 2010 (December 31, 2010 - \$(58,870)) and the provision for impaired loans was reduced by \$7,943 for the year ended December 31, 2010.

The Credit Union adopted a policy of classifying certain transaction costs related to loans to members as deferred expenses in other assets under pre-changeover Canadian GAAP. Since loans to members are classified as loans and receivables, IFRS requires transaction costs to be included in the amount initially recognized. Therefore, except to the extent loans to members have been impaired or amortized, the amounts have been reclassified from other assets to loans to members at January 1, 2010 and loans to members were increased by \$135,663. For the year ended December 31, 2010 other assets were reduced by \$83,881 and loans receivable were increased by \$83,881.

BELGIAN-ALLIANCE CREDIT UNION LTD. Notes to Financial Statements

For the year ended December 31, 2011

3. First Time Adoption of International Financial Reporting Standards (continued):

(ii) Deferred Income Taxes

As a result of the transition to IFRS the carrying amounts of certain assets and liabilities have been adjusted. There has not been a corresponding change to the tax basis of these assets and liabilities. As a result a decrease of \$8,000 was required to deferred income tax liability at January 1, 2010 and December 31, 2010 with a corresponding increase to retained earnings. Details of the components of deferred income tax liabilities at January 1 and December 31, 2010 and the corresponding amounts recorded in net income for the year ended December 31, 2010 are provided in Note 13.

Under IFRS deferred income taxes is required to be shown as a separate item on the balance sheet. In previous years, it was recorded as other liabilities. The amount reclassified from other liabilities at January 1, 2010 was \$32,200 and \$31,000 at December 31, 2010.

(iii) Income Taxes Payable (Recoverable)

Under IFRS income taxes payable (recoverable), it is required to be shown as a separate item on the balance sheet. In previous years, it was recorded as other liabilities or other assets. There have been no adjustments to retained earnings in either years. The amount reclassified from other assets at January 1, 2010 was \$71,004 and \$153,679 from other liabilities at December 31, 2010.

(iv) Retained Earnings

The following table outlines the adjustments to retained earnings:

	December 31 2010	January 1 2010
Provision for impaired loans (i)	\$ (58,870)	\$ (66,813)
Deferred income taxes (ii)	8,000	8,000
	\$ (50,870)	\$ (58,813)

(v) Statement of Cash Flows

Explanations for the statement of cash flow adjustments are as follows:

- (a) The change in net income for year ended December 31, 2010 has been offset by adjustments to provision for impaired loans.
- (b) Net increase in loans to members of \$7,633,331 has been presented as operating activities under changes in member activities rather than investing activities.
- (c) Net increase in deposits payable of \$3,194,950 has been presented as operating activities under changes in member activities rather than financing activities.
- (d) Increase in term deposits with CUCM of \$4,200,000 has been included as cash and cash equivalents rather than investing activities.
- (e) Term deposits of \$5,300,000 have been presented as cash and cash equivalents as at January 1, 2010.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

4. Funds on Hand and on Deposit

The Credit Union's cash and current accounts are held with CUCM. The average yield on the accounts at December 31, 2011 is 0.86% (December 31, 2010 - 0.81%; January 1, 2010 - 0.74%).

Included in the balance of funds on hand and on deposit is \$1,364,815 (December 31, 2010 - \$976,844, January 1, 2010 - \$859,744) denominated in US dollars.

5. Other Assets

	2011	2010	January 1 2010
Accounts receivable	\$ 28,321	\$ 12,432	12,432
Prepaid expenses	132,532	72,682	78,330
	\$ 160,853	\$ 85,114	90,762

6. Investments

Credit Union Central of Manitoba

Liquidity deposits

	2011	2010	January 1 2010
Term deposits	\$ 29,500,000	\$ 9,500,000	5,300,000
Accrued interest receivable	91,693	66,483	49,913
	\$ 29,591,693	\$ 9,566,483	5,349,913

The term deposits with CUCM bear interest at rates ranging from 1.10% to 2.84% and mature between 2012 and 2016.

Shares

	2011	2010	January 1 2010
CUCM - Class 1 shares	\$ 505,543	\$ 440,525	669,339
CUCM - Class 2 shares	580,041	657,683	377,500
Concentra Financial Services Association Common shares	290	290	290
	\$ 1,085,874	\$ 1,098,498	1,047,129

The shares in CUCM are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of CUCM. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

BELGIAN-ALLIANCE CREDIT UNION LTD. Notes to Financial Statements

For the year ended December 31, 2011

6. Investments (continued)

Shares (continued)

Class 1 and 2 CUCM shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

The Credit Union is not intending to dispose of any CUCM shares as the services supplied by CUCM are relevant to the day to day activities of the Credit Union.

Dividends on these shares are at the discretion of the Board of Directors of CUCM.

The shares of Concentra Financial Services Association are required as a condition of membership and are redeemable upon withdrawal of membership subject to the approval of the Board of Directors of the Association.

7. Loans to Members

	2011	2010	January 1 2010
Consumer			
Non-real estate	\$ 9,414,683	\$ 10,863,832	\$ 8,807,801
Real estate	94,279,338	70,035,638	65,451,607
Lines of credit	6,531,514	5,278,297	4,182,713
Commercial			
Non-real estate	3,962,124	958,881	729,212
Real estate	8,088,302	7,955,855	7,944,602
Lines of credit	757,450	864,548	831,272
Syndicated loans			
Real estate	4,431,412	4,769,695	5,062,589
	127,464,823	100,726,746	93,009,796
Deferred transaction costs	371,697	83,881	135,663
	127,836,520	100,810,627	93,145,459
Accrued interest receivable	214,902	186,986	188,823
	128,051,422	100,997,613	93,334,282
Allowance for impaired loans	304,818	447,644	454,009
	304,818	447,644	454,009
Net loans to members	\$ 127,746,604	\$ 100,549,969	\$ 92,880,273

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

7. Loans to Members (continued)

Terms and Conditions

Loans to members can have either a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 10.5%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2011 was 3%.

The interest rate offered on fixed rate loans being advanced at December 31, 2011 ranges from 3% to 14%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Consumer real estate loans are loans secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Consumer non-real estate loans and lines of credit are non-real estate secured and, as such, have various repayment terms. They are secured by various types of collateral, including charges on specific equipment or personal property, investments, and personal guarantees.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

Credit Quality of Loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	<u>2011</u>	<u>2010</u>
Unsecured loans	\$ 5,605,525	\$ 4,624,363
Loans secured by real property	64,919,617	57,492,785
Loans secured by chattels	13,094,269	11,516,991
Commercial loans insured by government	143,737	154,205
Residential mortgages insured by government	43,701,675	26,938,402
	<u>\$ 127,464,823</u>	<u>\$ 100,726,746</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

7. Loans to Members (continued)

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

No individual or related groups of loans to members exceed 5% of deposits payable and capital as at December 31, 2011, December 31, 2010 or January 1, 2010.

As at December 31, 2011, the Credit Union held \$5,672,952 (December 31, 2010 - \$7,574,614, January 1, 2010 - \$8,840,625) in outstanding commercial loans relating to the real estate, rental, and leasing industry, \$2,315,050 (December 31, 2010 - \$NIL, January 1, 2010 - \$NIL) relating to the insurance industry and \$1,540,240 (December 31, 2010 - \$16,326, January 1, 2010 - \$24,833) to the arts industry.

The majority of loans to members are with members located in and around Winnipeg, Manitoba. A sizeable portfolio of the Credit Union's loan portfolio is secured by residential property in Winnipeg, Manitoba. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

8. Allowance for Impaired Loans

Total allowance for impaired loans is comprised of:

	2011	2010	January 1 2010
Collective allowance	\$ 156,899	\$ 158,372	\$ 159,717
Individual specific allowance	147,919	289,272	294,292
Total allowance	<u>\$ 304,818</u>	<u>447,644</u>	<u>454,009</u>

During the years ended December 31, 2011 and December 31, 2010, the Credit Union did not acquire any assets in respect of problem loans.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

8. Allowance for Impaired Loans (continued)

Movement in individual specific and collective allowance for impairment is as follows:

	Consumer	Commercial	2011 Total
Balance at December 31, 2010	\$ 419,489	\$ 28,155	\$ 447,644
Provision for impaired loans	(69,603)	11,424	(58,179)
	<u>349,886</u>	<u>39,579</u>	<u>389,465</u>
Loans written off	(84,647)	-	(84,647)
Balance at December 31, 2011	<u>\$ 265,239</u>	<u>\$ 39,579</u>	<u>\$ 304,818</u>
Gross principal balance of individually impaired loans	<u>\$ 870,175</u>	<u>\$ 162,871</u>	<u>\$ 1,033,046</u>
	Consumer	Commercial	2010 Total
Balance at January 1, 2010	\$ 429,302	\$ 24,707	\$ 454,009
Provision for impaired loans	43,207	3,448	46,655
	<u>472,509</u>	<u>28,155</u>	<u>500,664</u>
Loans written off	(53,020)	-	(53,020)
Balance at December 31, 2010	<u>\$ 419,489</u>	<u>\$ 28,155</u>	<u>\$ 447,644</u>
Gross principal balance of individually impaired loans	<u>\$ 1,014,658</u>	<u>\$ 177,743</u>	<u>\$ 1,192,401</u>

An analysis of individual loans that are impaired or potentially impaired based on age of repayment outstanding is as follows:

	2011		2010		January 1, 2010	
	Carrying Value	Individual Specific Allowance	Carrying Value	Individual Specific Allowance	Carrying Value	Individual Specific Allowance
Period of delinquency						
Less than 30 days	\$ 13,670	\$ 13,670	\$ 216,117	\$ 64,778	\$ 558,203	\$ 120,283
31 to 90 days	36,176	36,176	444,927	125,825	19,423	19,423
Greater than 90 days	684,589	79,539	266,356	48,736	229,694	66,767
Total loans in arrears	<u>734,435</u>	<u>129,385</u>	<u>927,400</u>	<u>239,339</u>	<u>807,320</u>	<u>206,473</u>
Total loans not in arrears	<u>298,611</u>	<u>18,534</u>	<u>265,001</u>	<u>49,933</u>	<u>390,780</u>	<u>87,819</u>
Total loans	<u>\$ 1,033,046</u>	<u>\$ 147,919</u>	<u>\$ 1,192,401</u>	<u>\$ 289,272</u>	<u>\$ 1,198,100</u>	<u>\$ 294,292</u>

BELGIAN-ALLIANCE CREDIT UNION LTD. Notes to Financial Statements

For the year ended December 31, 2011

8. Allowance for Impaired Loans (continued)

Key Assumptions in Determining the Allowance for Impaired Loans Collective Allowance

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. 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.

An estimate of the collective allowance is based on the period of repayments that are past due.

For purposes of the collective allowance loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

Loans with repayments past due but not regarded as individually impaired and considered in determining the collective allowance are as follows:

	Consumer	Commercial	2011 Total
Less than 30 days	\$ 2,306,461	\$ 99,684	\$ 2,406,145
31 to 90 days	-	-	-
Greater than 90 days	-	-	-
Balance at December 31, 2011	\$ 2,306,461	\$ 99,684	\$ 2,406,145

	Consumer	Commercial	2010 Total
Less than 30 days	\$ 1,132,344	\$ 270,779	\$ 1,403,123
31 to 90 days	28,797	-	28,797
Greater than 90 days	-	-	-
Balance at December 31, 2010	\$ 1,161,141	\$ 270,779	\$ 1,431,920

	Consumer	Commercial	January 1, 2010 Total
Less than 30 days	642,170	\$ 22,737	\$ 664,907
31 to 90 days	-	-	-
Greater than 90 days	-	-	-
Balance at December 31, 2010	\$ 642,170	\$ 22,737	\$ 664,907

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

9. Property, Plant and Equipment

	<u>Cost</u>							
	Land	Buildings	Furniture and Equipment	Computer Equipment	Security Equipment	Signage	Building Improvements	Total
Balance at January 1, 2010	\$ 541,267	\$ 1,347,174	\$ 272,207	\$ 244,937	\$ 157,519	\$ 15,792	\$ 203,042	\$ 2,781,938
Additions	-	-	79,708	47,348	7,342	-	-	134,398
Disposals	-	-	30,000	-	-	-	-	30,000
Balance at December 31, 2010	541,267	1,347,174	321,915	292,285	164,861	15,792	203,042	2,886,336
Additions	-	-	5,845	4,650	-	-	-	10,495
Balance at December 31, 2011	\$ 541,267	\$ 1,347,174	\$ 327,760	\$ 296,935	\$ 164,861	\$ 15,792	\$ 203,042	\$ 2,896,831
<u>Accumulated Depreciation</u>								
Balance at January 1, 2010	\$ -	\$ 260,220	\$ 198,205	\$ 146,102	\$ 59,422	\$ 12,897	\$ 178,831	\$ 855,677
Depreciation expense	-	33,679	42,556	40,693	6,966	2,895	9,434	136,223
Disposals	-	-	27,262	-	-	-	-	27,262
Balance at December 31, 2010	-	293,899	213,499	186,795	66,388	15,792	188,265	964,638
Depreciation expense	-	33,679	37,369	45,353	7,728	-	9,434	133,563
Balance at December 31, 2011	\$ -	\$ 327,578	\$ 250,868	\$ 232,148	\$ 74,116	\$ 15,792	\$ 197,699	\$ 1,098,201
<u>Net Book Value</u>								
January 1, 2010	\$ 541,267	\$ 1,086,954	\$ 74,002	\$ 98,835	\$ 98,097	\$ 2,895	\$ 24,211	\$ 1,926,261
December 31, 2010	\$ 541,267	\$ 1,053,275	\$ 108,416	\$ 105,490	\$ 98,473	\$ -	\$ 14,777	\$ 1,921,698
December 31, 2011	\$ 541,267	\$ 1,019,596	\$ 76,892	\$ 64,787	\$ 90,745	\$ -	\$ 5,343	\$ 1,798,630

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

10. Other Liabilities

	2011	2010	January 1 2010
Accrued expenses and trade accounts	\$ 213,448	\$ 404,267	\$ 408,035
Certified cheques, money orders and travellers cheques outstanding	393,823	602,140	484,710
Deposit Guarantee Corporation of Manitoba assessment	-	24,815	19,973
Dividends payable	25,714	1,547	26,374
	\$ 632,985	\$ 1,032,769	\$ 939,092

11. Deposits Payable

	2011	2010	January 1 2010
Chequing	\$ 11,222,108	\$ 11,721,724	\$ 12,317,465
Savings	21,324,895	22,125,287	21,024,735
Term deposits	86,346,281	43,742,399	41,970,143
Registered retirement savings plans and Locked-in retirement accounts	28,628,691	20,144,622	19,257,214
Registered retirement income funds and Locked-in retirement income funds	9,155,421	7,693,158	7,662,202
Unclaimed and inactive accounts	25,965	26,125	26,606
	156,703,361	105,453,315	102,258,365
Accrued interest payable	1,507,793	1,018,932	1,138,214
	\$ 158,211,154	\$ 106,472,247	\$ 103,396,579

Terms and Conditions

Chequing accounts are due on demand and bear interest at a variable rate up to 0.15% at December 31, 2011.

Savings accounts are due on demand and bear interest at a variable rate up to 1.25% at December 31, 2011. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits issued on December 31, 2011 range from 2.00% to 2.90%.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

11. Deposits Payable (continued)

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to 1.25% at December 31, 2011.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Individuals may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts have been included in savings accounts above.

Included in chequing deposits is an amount of \$1,393,883 to be settled in US dollars (December 31, 2010 - \$1,138,283, January 1, 2010 - \$923,220).

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

No Individual or related groups of deposits payable exceeded 5% of deposits payable and capital as at December 31, 2011, December 31, 2010 or January 1, 2010.

Geographically deposits payable are concentrated as follows:

	December 31 2011	December 31 2010	January 1 2010
British Columbia	\$ 13,240,330	\$ 25,394	\$ -
Ontario	20,575,913	-	-
Manitoba and other	124,394,911	106,446,853	103,396,579
	\$ 158,211,154	\$ 106,472,247	\$ 103,396,579

The majority of deposits payable in Manitoba are with members and non-members in and around Winnipeg.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

12. Pension Plan

The Credit Union has a multi-employer defined contribution pension plan for full-time employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Credit Union matches employee contributions at rates ranging from 6% to 10% of employee salary. The expense and payments for the year ended December 31, 2011 were \$42,960 (2010 - \$32,958). As a defined contribution pension plan, the Credit Union has no further liability or obligation for future contributions to fund future benefits to plan members.

13. Income Taxes

The significant components of income tax expense included in net income are composed of:

	<u>2011</u>	<u>2010</u>
Current Income Tax Expense		
Based on current year taxable income	\$ 80,262	\$ 229,871
Deferred Income Tax Expense		
Origination and reversal of temporary differences	<u>20,000</u>	<u>(1,200)</u>
Total income tax expense	<u>\$ 100,262</u>	<u>\$ 228,671</u>

The total provision for income taxes in the statement of comprehensive income is at a rate less than the combined federal and provincial statutory income tax rates for the following reasons:

	<u>2011</u>	<u>2010</u>
	%	%
Combined federal and provincial statutory income tax rates	28.5	30.0
Small business deduction	(17.5)	(8.1)
Non-deductible and other items	<u>0.4</u>	<u>(0.7)</u>
	<u>11.4</u>	<u>21.2</u>

Changes to the federal and provincial tax rates were announced in 2010 which resulted in an adjustment to the opening carrying value of temporary differences. The reduction in deferred income tax payable is reflected in deferred income taxes.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

13. Income Taxes (continued)

The movement in deferred income tax liabilities and assets are as follows:

	2011				
	Balance at December 31 2010	Recognize in Net Income	Recognize Directly in Equity	Reclassify from Equity to Net Income	Balance at December 31 2011
Deferred income tax liabilities					
Property, plant and equipment	\$ 45,444	\$ 1,946	\$ -	\$ -	\$ 47,390
Other	(9,045)	9,045	-	-	-
	36,399	10,991	-	-	47,390
Deferred income tax assets					
Allowance for impaired loans	12,399	(9,009)	-	-	3,390
Net deferred income tax liability	\$ 24,000	\$ 20,000	\$ -	\$ -	\$ 44,000
	2010				
	Balance at January 1 2010	Recognize in Net Income	Recognize Directly in Equity	Reclassify from Equity to Net Income	Balance at December 31 2010
Deferred income tax liabilities					
Property, plant and equipment	\$ 35,130	\$ 10,314	\$ -	\$ -	\$ 45,444
Other	2,897	(11,942)	-	-	(9,045)
	38,027	(1,628)	-	-	36,399
Deferred income tax assets					
Allowance for impaired loans	12,827	(428)	-	-	12,399
Net deferred income tax liability	\$ 25,200	\$ (1,200)	\$ -	\$ -	\$ 24,000

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

14. Members' Shares

Shares	Authoriz ed	2011	2010	January 1, 2010
Common	Unlimited	\$ 901,921	\$ 851,005	\$ 802,977

Terms and Conditions

Common Shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold a \$5 membership share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by Deposit Guarantee Corporation of Manitoba. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital. The total share balance will not be reduced below the previous year end balance or below 2% of the Credit Union's assets, whichever is the lesser.

In order to accelerate the capital building plan undertaken by the Credit Union, a member share subscription program existed, whereby members increased their investment in the Credit Union by purchasing additional shares (\$5 each) in addition to their initial share (to a maximum of \$200).

The Board of Directors approved the payment of a 2.75% dividend on common shares.

Surplus Shares:

Surplus shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union with an issue price of \$1, and are redeemable at par at the option of the Credit Union. There is no limit on the number of shares which can be held by a member. The withdrawal of surplus shares is subject to the Credit Union maintaining adequate regulatory capital, as is the payment of any distributions on these shares. The total amount of surplus shares purchased or redeemed by the Credit Union in a fiscal year shall not reduce the Credit Union's equity below 5% of assets.

Distributions to members:

	2011		2010	
	Net Income	Equity	Net Income	Equity
Patronage distributions	\$ 150,000	\$ -	\$ 200,000	\$ -
Dividends on common shares (net of taxes)	-	21,509	-	20,371
	\$ 150,000	\$ 21,509	\$ 200,000	\$ 20,371

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

15. Provision for Issue of Common Shares

The Board of Directors has approved that the payment of a patronage refund of \$150,000 be allocated to the members net income for 2011. This patronage refund has been reflected in these financial statements as an expense in the current year.

When paid, this refund will be distributed to members on the basis of interest paid with respect to members' savings accounts and interest earned from variable rate loans and residential mortgages. The patronage refund is intended to be used for the purchase of additional common shares and has been included in the provision for issue of common shares in Members' Capital on the balance sheet as "Provision for Issue of Common Shares".

16. Other Income

	<u>2011</u>	<u>2010</u>
Commissions	\$ 138,971	\$ 161,878
Foreign exchange	47,272	68,397
Other	79,644	62,371
Safety deposit rent (net)	18,186	15,325
Service charges and safekeeping	<u>377,104</u>	<u>405,329</u>
	<u>\$ 661,177</u>	<u>\$ 713,300</u>

17. Personnel Expenses

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 932,256	\$ 767,155
Employee benefits	128,567	109,690
Other	<u>47,394</u>	<u>84,751</u>
	<u>\$ 1,108,217</u>	<u>\$ 961,596</u>

18. Administrative Expenses

	<u>2011</u>	<u>2010</u>
Advertising and promotion	\$ 54,066	\$ 28,933
Chattel registration and mortgage expense	68,779	64,613
Clearing and service charges	175,660	179,271
Repairs and maintenance	45,765	35,125
Printing, postage, supplies and stationery	107,605	98,702
Professional fees	51,786	38,107
Other	136,380	147,115
Telephone	<u>38,217</u>	<u>24,889</u>
	<u>\$ 678,258</u>	<u>\$ 616,755</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

19. Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Key management personnel comprises the eight directors and six members of management responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of key management personnel during the year was as follows:

	<u>2011</u>	2010
Compensation		
Salaries, and other short-term employee benefits	\$ 368,453	\$ 313,036
Total pension and other post-employment benefits	35,593	35,114
Other long-term benefits	15,720	13,730
Termination benefits	148,194	67,000
	<u>\$ 567,960</u>	<u>\$ 428,880</u>

Included in compensation above are the following payments to the directors and officers of the Credit Union for expenses associated with the performance of their duties:

	<u>2011</u>	2010
Honouraria and per diems	\$ 27,287	\$ 19,990
Training and conference costs	150	765
	<u>\$ 27,437</u>	<u>\$ 20,755</u>

	<u>2011</u>	2010
Loans to key management personnel		
Aggregate value of loans and lines of credit advanced	\$ 881,657	\$ 1,145,301
Interest received on loans and lines of credit advanced	21,933	21,050

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to members for each class of loan or deposit. The staff of the Credit Union is eligible for reduced loan rates not below the prescribed rate as set by the Bank of Canada.

	<u>2011</u>	2010
Deposits from key management personnel		
Aggregate value of term and savings accounts	\$ 883,128	\$ 825,243
Total interest paid on term and savings accounts	5,654	4,810

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel, staff or close family members.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

20. Financial Instrument Classification and Fair Value

The carrying amount of the Credit Union's financial instruments by classification is as follows:

	Available-for-Sale	Fair Value through Profit or Loss	Loans and Receivables	Other Financial Liabilities	Total
December 31, 2011					
Funds on hand and on deposit	\$ -	\$ -	\$ 8,203,914	\$ -	\$ 8,203,914
Other assets	-	-	28,321	-	28,321
Investments (Note 6)	1,085,874	-	29,591,693	-	30,677,567
Loans receivable	-	-	127,746,604	-	127,746,604
Other liabilities	-	-	-	(607,271)	(607,271)
Deposits payable	-	-	-	(158,211,154)	(158,211,154)
	\$ 1,085,874	\$ -	\$ 165,570,532	\$ (158,818,425)	\$ 7,837,981
December 31, 2010					
Funds on hand and on deposit	\$ -	\$ -	\$ 3,330,586	\$ -	\$ 3,330,586
Other assets	-	-	12,432	-	12,432
Investments (Note 6)	1,098,498	-	9,566,483	-	10,664,981
Loans receivable	-	-	100,549,969	-	100,549,969
Other liabilities	-	-	-	(1,031,222)	(1,031,222)
Deposits payable	-	-	-	(106,472,247)	(106,472,247)
	\$ 1,098,498	\$ -	\$ 113,459,470	\$ (107,503,469)	\$ 7,054,499
January 1, 2010					
Funds on hand and on deposit	\$ -	\$ -	\$ 10,930,164	\$ -	\$ 10,930,164
Other assets	-	-	12,432	-	12,432
Investments (Note 6)	1,047,129	-	5,349,913	-	6,397,042
Loans receivable	-	-	92,880,273	-	92,880,273
Other liabilities	-	-	-	(912,718)	(912,718)
Deposits payable	-	-	-	(103,396,579)	(103,396,579)
	\$ 1,047,129	\$ -	\$ 109,172,782	\$ (104,309,297)	\$ 5,910,614

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

20. Financial Instrument Classification and Fair Value (continued)

The following represents the fair values of on and off balance sheet financial instruments of the Credit Union. The fair values disclosed exclude the value of assets and liabilities that are not considered financial instruments. In addition, the value of intangibles such as long-term member relationships are not included in the fair value amounts. The Credit Union considers the value of intangibles to be significant.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2011		2010		January 1 2010	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Excess over Book Value
<i>(in thousands)</i>						
Assets						
Funds on hand and on deposit	\$ 8,204	\$ 8,204	\$ -	\$ 3,331	\$ 10,930	\$ -
Accounts receivable	28	28	-	12	12	-
Investments	30,678	30,810	132	10,665	6,397	35
Loans to members	127,375	129,619	2,244	100,550	92,880	2,300
	\$ 166,285	\$ 168,661	\$ 2,376	\$ 114,558	\$ 110,219	\$ 2,335
Liabilities						
Borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	633	633	-	1,033	939	-
Members' deposits	158,211	161,291	3,080	106,472	103,397	1,368
	\$ 158,844	\$ 161,924	\$ 3,080	\$ 107,505	\$ 104,336	\$ 1,368

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

20. Financial Instrument Classification and Fair Value (continued)

Interest rate sensitivity is the main cause of changes in the fair value of the Credit Union's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

	Level 1	Level 2	Level 3	Total
December 31, 2011				
CUCM - Class 1	\$ -	\$ 505,543	\$ -	\$ 505,543
CUCM - Class 2	-	580,041	-	580,041
	\$ -	\$ 1,085,584	\$ -	\$ 1,085,584
December 31, 2010				
CUCM - Class 1	\$ -	\$ 440,525	\$ -	\$ 440,525
CUCM - Class 2	-	657,683	-	657,683
	\$ -	\$ 1,098,208	\$ -	\$ 1,098,208
January 1, 2010				
CUCM - Class 1	\$ -	\$ 669,339	\$ -	\$ 669,339
CUCM - Class 2	-	377,500	-	377,500
	\$ -	\$ 1,046,839	\$ -	\$ 1,046,839

There were no transfers between level 1 and level 2 for the years ended December 31, 2011 and 2010.

BELGIAN-ALLIANCE CREDIT UNION LTD.

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21. Financial Instrument Risk Management

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives quarterly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

Objectives, Policies and Procedures

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, loan administration, credit concentration limits, and risk rating;
- Loan lending limits including Board of Directors limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and depreciation periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

21. Financial Instrument Risk Management (continued)

Objectives, Policies and Procedures (continued)

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for impaired loans quarterly.

Maximum Exposure to Credit Risk

The Credit Union's maximum exposure to credit risk without taking account of any collateral or other credit enhancements is as follows:

	2011		2010	January 1 2010
	Carrying Value	Maximum Exposure	Maximum Exposure	Maximum Exposure
CUCM deposits	\$ 29,500,000	\$ 29,500,000	\$ 9,500,000	\$ 5,300,000
Loans receivable	127,746,604	127,746,604	100,549,969	92,880,273
Undisbursed loans	-	5,746,891	2,167,176	2,442,222
Unutilized lines of credit	-	9,029,461	8,221,808	6,735,152
Unexpired letters of credit	-	90,000	90,000	90,000
	\$ 157,246,604	\$ 172,112,956	\$ 120,528,953	\$ 107,447,647

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Notes 7 and 8.

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is \$NIL.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity Risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

21. Financial Instrument Risk Management (continued)

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behavior of its members and counterparties.

Objectives, Policies and Procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Act require the Credit Union to maintain liquid assets of at least 8% of deposits payable and borrowings in order to meet member/associate withdrawals.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios monthly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

As at December 31, 2011, the position of the Credit Union is as follows:

Qualifying liquid assets on hand	\$ 37,400,481
Total liquidity requirement	<u>12,656,892</u>
Excess liquidity requirement	<u>\$ 24,743,589</u>

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

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21. Financial Instrument Risk Management (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

2011						
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 month	1 - 3 months	3 - 12 months	Greater than 1 year
<i>(in thousands)</i>						
Accounts payable	\$ 633	\$ (633)	\$ (633)	\$ -	\$ -	\$ -
Deposits payable	158,211	(160,522)	(40,757)	(10,116)	(40,260)	(69,389)
Unadvanced loans	-	(5,747)	(5,747)	-	-	-
Unutilized lines of credit	-	(9,029)	(9,029)	-	-	-
	\$ 158,844	\$ (175,931)	\$ (56,166)	\$ (10,116)	\$ (40,260)	\$ (69,389)

2010						
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 month	1 - 3 months	3 - 12 months	Greater than 1 year
<i>(in thousands)</i>						
Accounts payable	\$ 1,033	\$ (1,033)	\$ (1,033)	\$ -	\$ -	\$ -
Deposits payable	106,472	(107,796)	(42,267)	(9,447)	(25,178)	(30,904)
Unadvanced loans	-	(2,167)	(2,167)	-	-	-
Unutilized lines of credit	-	(8,222)	(8,222)	-	-	-
	\$ 107,505	\$ (119,218)	\$ (53,689)	\$ (9,447)	\$ (25,178)	\$ (30,904)

January 1, 2010						
	Carrying Amount	Gross Nominal Cash Outflow	Less than 1 month	1 - 3 months	3 - 12 months	Greater than 1 year
<i>(in thousands)</i>						
Accounts payable	\$ 939	\$ (939)	\$ (939)	\$ -	\$ -	\$ -
Deposits payable	103,397	(108,785)	(40,977)	(12,767)	(25,335)	(29,706)
Unadvanced loans	-	(2,442)	(2,442)	-	-	-
Unutilized lines of credit	-	(6,735)	(6,735)	-	-	-
	\$ 104,336	\$ (118,901)	\$ (51,093)	\$ (12,767)	\$ (25,335)	\$ (29,706)

Timing of utilized lines of credit and unadvanced loans payments are uncertain. Since these payouts are at the discretion of the members/associates the entire amount of potential payments has been included in less than 1 month.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

21. Financial Instrument Risk Management (continued)

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the balance sheet to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

Objectives, Policies and Procedures

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and loans to members and interest paid on deposits payable. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Guarantee Corporation of Manitoba in accordance with the Credit Union's matching policy. This policy has been approved by the Board of Directors as required by the Regulations to the Act. For the years ended December 31, 2011 and 2010, the Credit Union was in compliance with this policy.

BELGIAN-ALLIANCE CREDIT UNION LTD.
Notes to Financial Statements

For the year ended December 31, 2011

21. Financial Instrument Risk Management (continued)

The following schedule shows the Credit Union's sensitivity to interest rate changes. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity.

Maturity Dates	Assets	Liabilities	Asset / Liability Gap
Interest sensitive			
Variable	\$ 52,228,520	\$ 27,679,083	\$ 24,549,437
< 6 months	30,502,657	20,119,562	10,383,095
1 year	8,859,952	31,972,928	(23,112,976)
2 years	15,546,134	14,657,055	889,079
3 years	19,893,083	20,808,686	(915,603)
4 years	12,711,634	7,085,956	5,625,678
5 years	26,626,890	25,616,963	1,009,927
> 5 years	80,550	28,427	52,123
Interest sensitive	166,449,420	147,968,660	18,480,760
Non-interest sensitive	2,138,148	20,618,908	(18,480,760)
Total	<u>\$ 168,587,568</u>	<u>\$ 168,587,568</u>	<u>\$ -</u>

As at December 31, 2011, the weighted average rate for interest-bearing assets is 4.13% and for interest-bearing liabilities is 2.70%.

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.

An analysis of the Credit Union's risk due to changes in interest rates was calculated using financial modelling software and determined that an increase in interest rates of 1% could result in a decrease to net income of \$213,524 while a decrease in interest rates of 1% could result in an increase to net income of \$213,524.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

BELGIAN-ALLIANCE CREDIT UNION LTD.

Notes to Financial Statements

For the year ended December 31, 2011

21. Financial Instrument Risk Management (continued)

Foreign Exchange Risk

Foreign exchange risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to US dollar deposits denominated in US dollars. Foreign currency changes are continually monitored by the Investment Committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

Risk Measurement

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to members as well as currency purchase costs.

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$250,000 in US funds.

For the years ended December 31, 2011 and 2010, the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

22. Capital Management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations under The Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Total members' capital as shown on the balance sheet shall not be less than 5% of the book value of all assets;
- Retained earnings shall not be less than 3% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets.

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For the year ended December 31, 2011

22. Capital Management (continued)

The Credit Union considers its capital to include membership shares (common shares and surplus shares), and retained earnings. There have been no changes in what the Credit Union considers to be its capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Act which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2011 - \$52,429,826 (December 31, 2010 - \$52,393,050; January 1, 2010 - \$48,915,059).

As at December 31, 2011, the Credit Union met the capital requirements of The Act with a calculated members' capital ratio of 5.70% (December 31, 2010 - 7.60%; January 1, 2010 - 7.06%), a retained surplus ratio of 5.08% (December 31, 2010 - 6.70%; January 1, 2010 - 6.21%) and a risk weighted asset ratio of 18.67% (December 31, 2010 - 17.28%; January 1, 2010 - 16.60%).

	2011	2010	January 1 2010
Tier I Capital			
Members' shares	\$ 901,921	\$ 851,005	\$ 802,977
Provision for issue of common shares	150,000	199,206	-
Retained earnings	8,574,536	7,819,442	6,982,615
Non-taxable portion of loan provision	30,482	44,990	44,826
	\$ 9,656,939	\$ 8,914,643	\$ 7,830,418
Tier II Capital			
Members' shares	\$ 901,921	\$ 851,005	\$ 802,977

All members shares are included in the calculation of members' capital regardless of being classified as a liability or equity on the balance sheet.

23. Commitments

Credit Facilities

The Credit Union has approved lines of credit with CUCM equal to 10% of its members' deposits and bears interest at prime (effective rate of 3% at December 31, 2011). For the current year, this amounts to \$15.8 million. These accommodations are secured by an assignment of shares and deposits in CUCM and a general assignment of loans receivable from members. The balance outstanding at December 31, 2011 was \$NIL (December 31, 2010 - \$NIL, January 1, 2010 - \$NIL).

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For the year ended December 31, 2011

23. Commitments (continued)

Loans to Members

The Credit Union has the following commitments to its members at the year end date on account of loans, unused lines of credit and letters of credit:

Unadvanced loans	\$	5,746,891
Unused lines of credit		9,029,461
Letters of credit		90,000

Contractual Obligations

Premises

The Credit Union has entered into operating leases for its premises. The following are the minimum lease payments for the next five years:

2012	\$	57,943
2013		57,943
2014		57,943
2015		57,943
2016		1,126

Other

Credit Union Central of Manitoba

The Credit Union is a member of CUCM, which provides banking and other services to Credit Unions in Manitoba. By nature of membership in CUCM, the Credit Union is obligated to pay affiliation dues which are based on membership and assets.

Deposit Guarantee Corporation of Manitoba

The Deposit Guarantee Corporation of Manitoba (the "Corporation") is a deposit insurance corporation. By legal obligation under the Act, the Corporation guarantees the deposits of all Credit Union members in every credit union within Manitoba. By legislation, the Credit Union pays a quarterly levy to the Corporation based on a percentage of members' deposits.