TransCanada Credit Union Limited

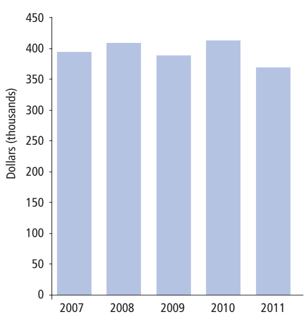
2011 Annual Report

Table of Contents

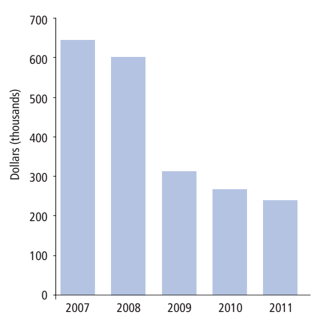
Financial Highlights for 2011

	2011	2010
Membership	2624	2681
Assets	$24,040,370	$23,765,564
Shares	$541,135	$518,977
Savings	$14,383,431	$18,714,026
Terms	$4,584,196	$3,767,390
RRSPs	$3,388,300	$3,581,317
Loans	$9,121,945	$9,563,258
Mortgages	$7,223,422	$7,307,286
Dividend paid to members	5.00%	4.00%

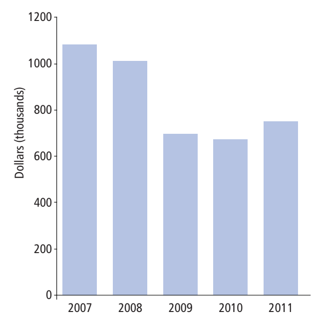
Total Operating Expenses



Total Financial Expenses



Total Financial Income



Board of Directors

Board of Directors

Lora Manning
Wayne Rumsey
Jane Gill
Doug Slater
Robert Nowakowsky
Zafir Samoylove

Staff

Tamara Pacchiano
Denise D'Aoust
Debbie Letendre

President’s Message

President: Jane L.S. Gill

Economic unrest continues to have negative impacts on the entire banking industry, impacting our competitors and peers. Interest rates continue to be very low which, even though this is a benefit to our members of low borrowing costs, it squeezes the margins that help contribute to the financial bottom line of the Credit Union. We have been successful in our progression toward increased financial stability by retaining additional funds into Retained Earnings to enable financial strength and continuity regardless of future financial conditions and external influences. Even though we did not see growth in the year, we saw stability in lending and savings.

We paid a dividend of 5% to the members this year, representing an increase from 2010 and continuing a trend of paying successive dividends for many years now.

I extend thanks and appreciation to the General Manager, Denise D’Aoust, and staff, Debbie Letendre and Tamara Pacchiano for their service to you, the membership, and ensuring that the operation runs smoothly and in compliance with laws and regulations.

I commend the Board on their continued service this year, with continuation of long-serving members as well as recent additions that bring a variety of skills and attributes that bring great benefit and balance to the Board.

We are eager to continue working for the membership, and encourage you to share your thoughts on how to serve you better. We thank you for your patronage and look forward to continuing to provide service into the future.

It has been my pleasure to work with the Credit Union for another year.

On behalf of the Board of Directors,

Jane L.S. Gill
Chairman and President

General Manager's Report

General Manager: Denise D'Aoust

2011 was yet another year of economic stability and there were still many concerns about debt issues. Recovery, while positive and an improvement from 2010, was subdued.

TransCanada Credit Union experienced moderate deposit growth which was consistent with the current economy and a low interest rate environment.

Fiscal 2011 was a year of excellent progress for our capital position. Retained earnings, which are TransCanada Credit Union's primary source of capital, increased from 2.55% of assets in 2010 to 3.26% of assets in 2011.

Interest rates and other economic factors pose further challenges to our profitability and our growth. To meet this challenge, we will continue to be guided by our business plan while relying on sound business practices and the integrity of our Board of directors.

We have shown good success through the delivery of basic financial and personal services. We continue to feel very positive about the opportunities and our experience in 2011 supports that view.

As always, member service will be our first priority. We have not forgotten that TransCanada Credit Union must serve members with respect, integrity and courtesy, with their interests foremost. We are here to help you and take pride in providing quality, responsive service.

The assistance provided by TransCanada contributes significantly to the financial strength of our Credit Union, which is a benefit to all members. On your behalf I would like to extend our most sincere gratitude and appreciation for the company's ongoing support.

I extend a sincere thank you to Board of Directors for their unwavering support and guidance. The Board is committed to ethical, professional and lawful conduct. Our Directors work to ensure that TransCanada Credit Union meets all regulatory and member expectations in compliance with the existing laws.

I would like to thank the staff, Debbie and Tamara, for their dedication and extra efforts. They have been enthusiastic supporters of the ongoing challenges.

Finally, I wish to extend our thanks to the membership for their confidence in their owned financial institution.

Denise D'Aoust
General Manager

Report of the Audit and Finance Committee

Lorrainne MacAulay, Chairperson
Doug Slater
Lora Manning

The Audit and Finance Committee is comprised of three directors. Lora Manning joined the Committee in 2011, bringing valuable industry and financial experience. The Committee meets formally as needed throughout the year in addition to using telephone conferencing and email to ensure the following obligations are met over the course of the year:

- Ensure the accuracy of financial reporting and review of the financial position of the Credit Union. This includes recommendation of the annual budget to the Board, obtaining reasonable understanding of the internal controls in place at the Credit Union to safeguard assets.

- Engage and oversee the external and internal auditors including the terms of their engagement and scope of the audit and the review of the annual audited financial statements prior to approval of the Board prior to issuance to members.

- Review the policies, procedures and controls which relate the requirements for liquidity, capital adequacy and interest rate management.

The Committee reports directly to the Board of Directors and makes recommendations to the Board and Management, as appropriate, with respect to the responsibilities noted above. In the event that recommendations have been made, follow up is undertaken to ensure that the recommendations have been duly considered and implemented. There have been no significant recommendations made by the Committee not implemented or in progress of being implemented.

The Committee is pleased to report that we continued to receive the full cooperation of Management in the execution of our fiduciary responsibilities.

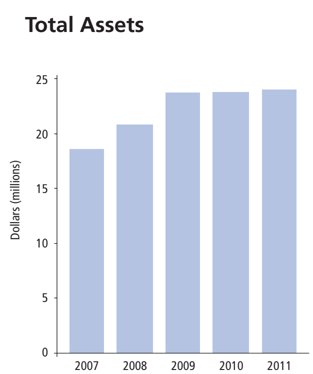
2011 saw the continuation of a challenging interest rate environment. Despite low rates, the Credit Union saw healthy financial results. The Credit Union continued to surpass its capital and liquidity requirements and is in a sound financial position. The Committee worked closely with Management and external auditors to review the effect of upcoming accounting rule changes from the implementation of International Financial Reporting Standards (IFRS) and ensured that the Credit Union is in compliance with 2012 reporting requirements. Changes are minimal and the Credit Union proactively implemented changes in policy to be IFRS compliant.

Chairperson: Lorrainne MacAulay

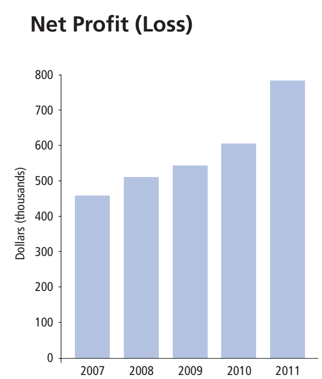
Doug Slater

Lora Manning

Assets



Net Profit (Loss)



There are no matters which the Audit and Finance Committee believes should be reported to the members, nor are there any matters that are required to be disclosed under the Credit Union Act or regulations.

I extend my thanks to the members of the Audit and Finance Committee for their hard work and dedication over the past year.

Lorrainne MacAulay
Chairman
Audit and Finance Committee

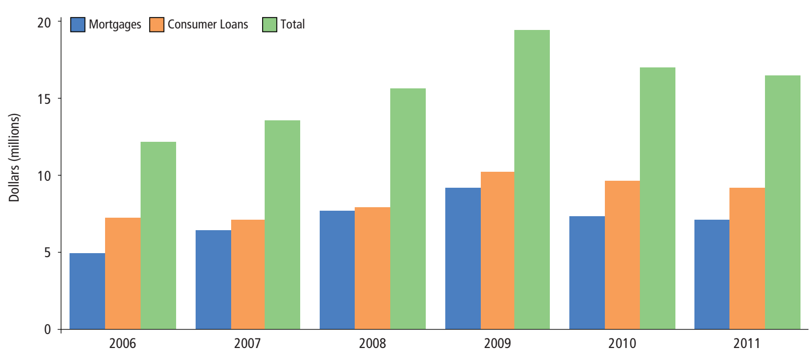
Report of the Credit Committee

Wayne Rumsey, Chairperson
Zafir Samoylove
Rob Nowakowsky

The Credit Committee's primary responsibility is to review and provide approval of loan applications presented in excess of the General Manager's lending limit, ensuring adherence to the Credit Union lending policies.

As at October 31, 2011, the loan portfolio for TransCanada Credit Union was $16.3 million. Total loans approved in the 2011 fiscal year were $4.13 million compared to $4.67 million in 2010. The decrease is primarily due to the economic downturn, decrease in interest rates and the slow down in the real estate market.

Total Number of Loans Approved	Total Amount of Money Advanced
128	$5,098,726



Chairperson: Wayne Rumsey

Zafir Samoylove

Rob Nowakowsky

The Credit Union Movement

The Credit Union movement started in Canada in 1900 because banks had no interest in lending money to individuals, which is ironic, in light of today's intense competition between banks to sign up personal accounts. They originated in Europe in 1849 and flourished because of usury.

It is reputed that excessive rates of interest were charged on loans in those days, sometimes as high as 700% to 1,000%, or more. Loans not paid off in the borrower's lifetime were passed down to the next generation. Alphonse Desjardins, the acknowledged father of credit unions in Canada, established a community Caisse Populaire in Levis, Quebec, to protect consumers form these 'loan sharks'.

The movement, which originated in 1884 as an offshoot of a consumer co-operative organized by unemployed English weavers, gradually spread among rural fishing communities in Quebec and Atlantic Canada. Credit Unions were subsequently established in all parts of the country – particularly in the West- by churches, farming and community groups, industrial and labour organizations, and employees of corporations large and small.

The majority of Credit Unions in Canada began in a very casual way. A group of people wanting to organize a Credit Union wrote by-laws, applied for a Provincial Charter, elected Directors and Officers and were in business.

With over 5,000,000 members in Canada today, and assets of $125.9 billion, credit unions are certainly giving the banking community a run for YOUR money.

Hawkings Epp Dumont LLP Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of TransCanada Credit Union Limited
Calgary, Alberta

We have audited the accompanying financial statements of TransCanada Credit Union Limited, which comprise the balance sheet as at October 31, 2011, and the statements of income, retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Hawkings Epp Dumont LLP

Edmonton, Alberta
January 23, 2012

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Chartered Accountants

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Email: hed@hedlloyd.com

Management's responsibility for financial reporting

To the Members

TransCanada Credit Union Limited

Management has the responsibility for preparing the accompanying financial statements and ensuring that all information in the Annual Report is consistent with these statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles and the requirements of the Credit Union Act.

In discharging its responsibility for the integrity and fairness of the financial statements, as well as for the accounting systems from which they are derived, management maintains the necessary systems of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The ultimate responsibility to members for the financial statements lies with the Board of Directors. The Board appoints an Audit and Finance Committee to review financial statements with management in detail and to report to the Board prior to its approval to publish the financial statements.

The Board appoints external auditors to audit the financial statements and to meet separately with both the Audit and Finance Committee and management to review their findings. The external auditors report directly to the members. The external auditors have full and free access to the Audit and Finance Committee to discuss their audit, as well as their findings concerning the integrity of the Credit Union's financial reporting and the adequacy of its systems of internal controls.

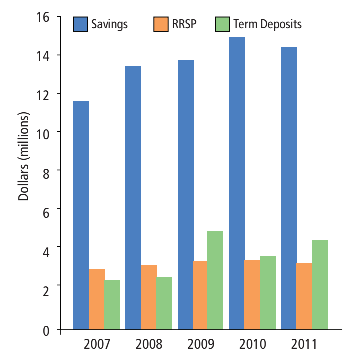
Calgary, Alberta
January 23, 2012

Denise D'Aoust, General Manager

Balance Sheet as at October 31, 2011

	2011		2010	
Assets				
Cash	$	31,935	$	144,747
Investments (Note 4)		7,613,620		6,698,909
Member Loans (Note 5)		16,354,849		16,834,962
Other assets		39,966		74,243
Property and Equipment (Note 6)		–		12,703
	$	24,040,370	$	23,765,564
Liabilities				
Accounts Payable and Accrued Liabilities	$	44,657	$	51,091
Income Taxes Payable		22,704		4,156
Member Deposits (Note 8)		22,407,263		22,350,816
Dividends payable		25,787		19,931
	$	22,500,411	$	22,425,994
Members' Equity				
Common Shares (Note 9)		541,135		518,977
Contributed Surplus		215,000		215,000
Retained Earnings		783,824		605,593
		1,539,959		1,339,570
	$	24,040,370	$	23,765,564

Deposit Accounts



On behalf of the board:

____________________ Director

____________________ Director

Statement of Income for the year ended October 31, 2011

	2011	2010
Interest Income		
Member loans	$ 670,268	$ 640,280
Investments	79,059	30,953
	749,327	671,233
Interest Expense		
Member deposits	236,377	265,482
Net Interest Income	512,950	405,751
Other Income	48,135	123,097
Net Interest and Other Income	561,085	528,848
Charge for Loan Impairment (Note 5)	(38,984)	23,700
Gross Margin after Charge for Loan Impairment	600,069	505,148
Operating Expenses (Schedule I)	365,795	411,249
Income Before Income Taxes	234,274	93,899
Income Taxes (Note 10)		
Current	33,866	13,107
Future	–	1,204
	33,866	14,311
Net Income	$ 200,408	$ 79,588

Statement of Retained Earnings for the year ended October 31, 2011

	2011	2010
Balance, Beginning of Year	$ 605,593	$ 543,145
Add:		
Net Income	200,408	79,588
Tax recovery on common share dividends	3,610	2,791
	204,018	82,379
Less:		
5% dividend on common shares (2010 4%)	25,787	19,931
Balance, End of Year	$ 783,824	$ 605,593

Statement of Cash Flows for the year ended October 31, 2011

		2011		2010
Cash Flows from Operating Activities				
Net income	$	200,408	$	79,588
Adjustments for:				
Amortization		12,703		12,705
Change in other assets		34,277		(52,054)
Change in future income taxes		–		1,204
Change in accounts payable and accrued liabilities		(6,434)		4,635
Change in income taxes payable		18,548		4,635
		259,502		55,148
Cash Flows from Financing Activities				
Change in common shares		22,158		40,026
Dividend on common shares (net of taxes)		(22,177)		(17,140)
Change in dividends payable		5,856		2,183
hange in member deposits		56,447		(48,549)
		62,284		(23,480)
Cash Flows from Investing Activities				
Change in investments		(914,711)		(2,366,942)
Change in member loans		480,113		2,340,963
		(434,598)		(25,979)
Change in Cash During the Year		(112,812)		5,689
Cash, Beginning of Year		144,747		139,058
Cash, End of Year	$	31,935	$	144,747
Additional Cash Flow Information:				
Interest Paid During the Year	$	239,761	$	302,493
Income Taxes Paid During the Year	$	11,708	$	1,246

Notes to Financial Statements October 31, 2011

1. Nature of Operations

TransCanada Credit Union Limited (the "Credit Union") is incorporated under the Credit Union Act of the Province of Alberta and provides financial services to current and former employees of TransCanada Corporation and its subsidiaries ("TransCanada").

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province will ensure that the Corporation carries out this obligation.

2. Summary Of Significant Accounting Policies

The Credit Union follows accounting policies appropriate to its activities and governing legislation, which conform in all material respects to Canadian generally accepted accounting principles. The significant accounting policies adopted by the Credit Union include:

a) Investments

Term deposits are classified as held to maturity and are recorded at cost or amortized cost, adjusted to recognize other than a temporary impairment in the underlying value.

Credit Union Central Alberta Limited shares are classified as available for sale. As there is no active market for these shares they are recorded at amortized cost.

The Credit Union recognizes interest income as earned, and investment gains and losses when realized.

b) Member Loans

Member loans are classified as loans and receivables. Member loans are initially measured at fair value. Subsequently, they are measured at amortized cost, less allowance for loan impairment, using the effective interest method.

Member loans are stated net of unearned income and any allowance for credit losses.

Interest income from loans is recorded on an accrual basis except on loans classified as impaired. A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is reasonable doubt as to the timely collection of some portion of principal or interest. A loan where payment of interest is contractually past due 90 days is classified as impaired unless there is no reasonable doubt as to the collectibility of all interest and principal. When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Loans, or portions of loans considered uncollectible, are written off.

2. Summary Of Significant Accounting Policies (Cont'd)

c) Allowance for Loan Impairment

The Credit Union maintains an allowance for credit losses in an amount considered adequate to absorb credit losses existing in its loan portfolio. The allowance is increased by a provision for credit losses which is charged to income, and reduced by write offs, net of recoveries. The allowance for credit losses consists of both specific and general provisions, each of which is reviewed on a regular basis.

Specific provisions include all the accumulated provisions for losses on particular loans required to reduce the carrying amount of those loans to their estimated realizable values. Estimated realizable values are generally determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security.

The general provision is established by taking into consideration historical trends in loss experience, historical experience in the industry, the current portfolio profile, and management's evaluation of other conditions existing at the balance sheet date which are not reflected in historical trends.

d) Property and Equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is provided for using the straight line method over the estimated useful lives of the related assets as follows:

Computer hardware and software	1 – 3 years

Gains and losses on disposal are recorded in the Statement of Income in the year of disposal.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

e) Income Taxes

The Credit Union has adopted the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the expected future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases as well as for the benefit of any unused tax losses and income tax reductions to be carried forward to future years for tax purposes that are likely to be realized. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, to reflect the estimated realizable amount.

2. Summary Of Significant Accounting Policies (Cont'd)

f) Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions regarding significant items such as amounts relating to amortization, impairment assessments of property and equipment, and allowances for credit losses that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Future Changes in Accounting Policies

The Canadian Institute of Chartered Accountants is transitioning from Canadian generally accepted accounting principles (CGAAP) for publicly accountable entities to International Financial Reporting Standards (IFRS). The financial reporting requirements of CGAAP differ in a number of areas from those prescribed by IFRS.

The Credit Union's financial statements will be prepared in accordance with IFRS for the fiscal year commencing November 1, 2011 and will include comparative information for the prior year. The Credit Union's transition date to IFRS is November 1, 2010 and accordingly, the Credit Union will prepare its opening IFRS balance sheet as at that date and in compliance with IFRS 1 First Time Adoption of IFRS ("IFRS 1").

Upon transition to IFRS, the general principle is that financial statements must be prepared on a retrospective basis as if IFRS had always been adopted. In addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1 provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS.

a) Optional exemptions from full retrospective application elected by the Credit Union:

Property and Equipment

The Credit Union may elect to report items of property and equipment in its opening balance sheet on the transition date using either the historical cost or revaluation model. The exemption can be applied on an asset by asset basis. The Credit Union will report the items at historical cost.

Statement of Cash Flows

Either the direct or indirect method may be presented. The Credit Union will continue to use the indirect method with no impact on transition or in the future.

3. Future Changes in Accounting Policies (Cont'd)

b) Mandatory exceptions from full retrospective application followed by the Credit Union:

Estimates exception

IFRS 1 requires estimates made under IFRS at November 1, 2010 to be consistent with estimates made for the same date under CGAAP (after adjustments to reflect any difference in accounting policies) unless there is evidence that those estimates were in error.

The above items and related comments identify those areas that the Credit Union believes to be most significant. The Credit Union is currently in the process of quantifying the IFRS adjustments.

4. Investments

	2011	2010
Credit Union Central Alberta Limited ("Central")		
Term deposits	$ 6,975,000	$ 6,180,000
Shares	310,288	310,288
Concentra Shares	300,000	200,00
	7,585,288	6,690,288
Accrued interest	28,332	8,621
	$ 7,613,620	$ 6,698,909

As required by the *Credit Union Act,* the Credit Union holds investments in Central to maintain its statutory liquidity requirements.

5. Member Loans

	Recorded Loans	Specific Allowance	General Allowance	Net Carrying Value 2011	2010
Consumer loans	$ 9,121,945	$ –	$ –	$ 9,121,945	$ 9,519,116
Residential mortgages	7,223,422	–	–	7,223,422	7,307,286
	16,345,367	–	–	16,345,367	16,826,402
Accrued interest	9,482	–	–	9,482	8,560
	$ 16,354,849	$ –	$ –	$ 16,354,849	$ 16,834,962

There were no impaired loans at year end (2010 – no impaired loans).

Details of the changes in the allowance for loan impairment are as follows:

	2011	2010
Balance, beginning of year	$ 44,142	$ 24,391
Charge for loan impairment	(38,984)	23,700
Loans written off	(5,158)	(4,474)
Recoveries	–	525
	(44,142)	(19,751)
Balance, end of year	$ –	$ 44,142

6. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value 2011	Net Book Value 2010
Computer software	$ 139,631	$ 139,631	$ –	$ 12,703
Computer hardware	28,530	28,530	–	–
	$ 168,161	$ 168,161	$ –	$ 12,703

7. Operating Line of Credit

The Credit Union has an approved $200,000 operating line of credit and a $600,000 revolving term loan with Credit Union Central. Interest is payable at Credit Union Central's prime rate minus 0.5% on the operating line of credit and prime rate minus 1% on the revolving term loan. These amounts were not utilized at year end.

8. Member Deposits

	2011	2010
Participatory savings	$ 14,378,041	$ 14,942,125
Registered Retirement Savings Plans	4,589,587	3,581,316
Term deposits	3,388,299	3,772,655
	22,355,927	22,296,096
Accrued interest	51,336	54,720
	$ 22,407,263	$ 22,350,816

9. Common Shares

The *Credit Union Act* created a class of equity shares known as common shares, having the following characteristics:

i) an unlimited number may be issued;

ii) a par value of $1, but fractional shares may be issued;

iii) non transferable;

iv) non assessable; and

v) redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the *Credit Union Act* and Regulations.

A member must purchase at least 25 shares to retain membership in the Credit Union.

Common shares are "at risk" capital and are not guaranteed by the Credit Union Deposit Guarantee Corporation.

		2011		**2010**
Balance, Beginning of Year	$	518,977	$	478,951
Share purchases by members		37,366		64,776
Share redemptions paid to members		(34,919)		(42,498)
Dividends credited to share accounts		19,711		17,748
		22,158		40,026
Balance, End of Year	$	541,135	$	518,977

10. Income Taxes

Full provision for income taxes is made in the determination of net income. The effective tax rate approximates the statutory combined federal and provincial rates of 14%.

11. Related Party Transactions

Directors, management and staff of the Credit Union had $295,817 (2010 $361,547) in loans outstanding at October 31, 2011. All loans are at interest rates comparable to those other members would receive, and all loans are current.

Directors, management and staff of the Credit Union had $95,043 (2010 $93,029) in deposits with the Credit Union at October 31, 2011.

Directors were not remunerated for their contributions to the Credit Union.

TransCanada provides office space, furniture, equipment, office supplies and employees who perform duties on a part time basis for the Credit Union. No amount is charged for these services.

12. Commitments

Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These commitments are not included in the balance sheet.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum credit exposure to the Credit Union should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent the future cash requirements.

	2011	**2010**
Commitments to extend credit		
Original term to maturity of one year or less	$ 4,593,259	$ 5,091,224

13. Risk Management

The use of financial instruments exposes the Credit Union to credit risk, market risk and liquidity risk. The following is a description of those risks and how the Credit Union manages exposure to them.

Credit Risk

Credit risk is the risk that financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union arising from financial instruments, such as loan balances, credit commitments and letters of guarantee.

The Credit Union's credit risk management practices include ongoing assessment, analysis and monitoring of financial information related to individual borrowers included in the Credit Union's loan portfolio.

Refer to Notes 5 and 12 for information on credit exposure and credit quality.

Market Risk

Market risk is the risk that the Credit Union may incur a loss due to adverse changes in interest rates, foreign exchange rates or equity and commodity market prices arising from financial instruments, such as investments, loans and deposit balances.

The Credit Union's market risk management practices include day to day analysis and monitoring of market interest rates and foreign exchange rates.

Refer to Note 16 for more information on interest rate risk.

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet either the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

Under the *Credit Union Act* of Alberta the Credit Union must maintain a minimum liquidity ratio of 6% of total assets. The Credit Union's liquidity ratio was 9.4% at October 31, 2011 (2010 – 8.3%).

The Credit Union's liquidity risk management practices include daily monitoring of expected cash inflows and outflows and analysis of loan and deposit maturities.

Notes to Financial Statements October 31, 2011

14. Capital Management

The Credit Union manages capital to ensure that it meets the minimum levels set out in the *Credit Union Act* of Alberta (the "Act") and to support the continued growth of the Credit Union and build member value.

The Credit Union's capital includes:

	2011	2010
Retained earnings and contributed surplus	$ 998,824	$ 820,593
Common Shares	998,824	518,977
General allowance for credit risk	–	44,142
Qualifying Central retained earnings (a)	67,859	57,751
	$ 1,607,818	$ 1,441,463

(a) The Credit Union's portion of qualifying retained earnings of Credit Union Central of Alberta ("Central") as calculated and provided by Central.

The Credit Union is required under the Act to have a capital balance that is equal to or exceeds the greater of:

4% of total assets; and

8% of risk weighted assets

Credit Union management measure the adequacy of the Credit Union's capital to these requirements on an ongoing basis and report the results to the Board of Directors and Credit Union Guarantee Corporation.

As at October 31, 2011 the Credit Union's total capital as a percent of assets was 6.7% (2010 – 6.1%) and the total capital as a percent of risk weighted assets was 16.5% (2010 – 14.2%). Therefore, the Credit Union has exceeded its minimum capital requirement at October 31, 2011.

15. Fair Value of Financial Instruments

Fair value amounts disclosed represent point in time estimates that may change in subsequent reporting periods due to market conditions or other factors. Many of the Credit Union's financial instruments lack an available trading market and are intended to be held to maturity. The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent the Credit Union's best estimates based on a range of methods and assumptions. Since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instrument.

Interest rate changes are the primary cause of changes in the fair value of the Credit Union's financial instruments. The following methods and assumptions are used to estimate the fair market value of financial instruments:

15. Fair Value of Financial Instruments (Cont'd)

i) The fair values of cash, investments, other assets and other liabilities approximate their carrying values due to their short term nature.

ii) The estimated fair value of floating rate member loans and member deposits approximate their carrying value as the interest rates automatically reprice to market.

iii) The estimated fair value of fixed rate member loans and fixed rate member deposits are determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

Estimated fair values of on balance sheet financial instruments are summarized as follows:

	2011			2010		
	Fair Value	**Book Value**	**Fair Value over Book Value**	**Fair Value**	**Book Value**	**Fair Value over Book Value**
Assets						
Cash	$ 31,935	$ 31,935	$ –	$ 144,747	$ 144,747	$ –
Investments	7,613,620	7,613,620	–	6,698,909	6,698,909	–
Loans	16,359,212	16,354,849	4,363	16,869,267	16,834,962	34,305
Other	39,966	39,966	–	86,946	86,946	–
Less:						
Liabilities						
Deposits	22,494,938	22,407,263	87,675	22,442,660	22,350,816	91,844
Other liabilities	93,148	93,148	–	75,178	75,178	–
	$1,456,647	$1,539,959	$ (83,312)	$1,282,031	$1,339,570	$ (57,539)

Notes to Financial Statements October 31, 2011

16. Interest Rate Risk

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with maturities of its financial assets. The table below summarizes amounts by maturity dates and weighted average effective interest rates.

As at October 31, 2011

	Floating Rate	Within 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Assets					
Cash	$ –	$ –	$ –	$ 31,935	$ 31,935
Effective yield	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Investments	310,288	7,175,000	100,000	28,332	7,613,620
Effective yield	*1.00%*	*1.08%*	*2.17%*	*0.00%*	*1.09%*
Member loans	13,585,901	913,950	1,845,516	9,482	16,354,849
Effective yield	*3.86%*	*5.41%*	*4.29%*	*0.00%*	*3.99%*
Other	–	–	–	39,966	39,966
	13,896,189	8,088,950	1,945,516	109,715	24,040,370
Liabilities					
Member deposits	14,866,913	5,304,977	2,181,817	53,556	22,407,263
Effective yield	*0.74%*	*1.27%*	*2.66%*	*0.00%*	*1.05%*
Equity	–	–	–	1,539,959	1,539,959
Other	–	–	–	93,148	93,148
	14,866,913	5,304,977	2,181,817	1,686,663	24,040,370
Net gap	$ (970,724)	$ 2,783,973	$ (236,301)	$ (1,576,948)	–

As at October 31, 2010

	Floating Rate	Within 1 Year	1 to 5 Years	Non-rate Sensitive	Total
Net gap	$ (1,258,425)	$ 2,492,288	$ 30,873	$ (1,264,736)	$ –

Schedule of Operating Expenses for the year ended October 31, 2010

	2011	2010
Personnel		
Salaries	$ 177,896	$ 179,846
Benefits	29,059	30,426
Training	–	240
	206,955	210,512
Security		
Deposit guarantee assessment	36,927	40,770
Bonding	6,827	6,521
	43,754	47,291
Organization		
Central dues	16,814	16,895
Meetings	6,389	4,975
Other	1,835	1,778
	25,038	23,648
General		
Professional fees	27,900	24,900
Computer processing	25,699	64,328
Amortization	12,703	12,705
RRSP administration fee	7,202	7,214
Cash and service charges	4,448	4,932
Insurance	3,984	3,180
Other	3,647	5,595
Marketing and advertising	3,624	2,983
Stationery and supplies	841	3,961
	90,048	129,798
	$ 365,795	$ 411,249

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TransCanada Credit Union Limited

2011 Annual Report

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