

**THAMESVILLE COMMUNITY  
CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2009**

**THAMESVILLE COMMUNITY CREDIT UNION LIMITED**

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**OCTOBER 31, 2009**

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## AUDITORS' REPORT

To the Members of  
**Thamesville Community Credit Union Limited:**

We have audited the balance sheet of Thamesville Community Credit Union Limited as at October 31, 2009 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Retford Lane Bates LLP**  
**Licensed Public Accountants**

November 19, 2009

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## BALANCE SHEET

AS AT OCTOBER 31, 2009

	2009	2008
<b>ASSETS</b>		
Cash resources	\$ 894,479	\$ 1,033,980
Investments (Note 4)	4,073,644	5,377,578
Loans to members (Note 5 and 6)	18,422,463	17,148,132
Other assets (Note 7)	89,785	123,507
Capital assets (Note 8)	662,304	722,022
	<b>\$ 24,142,675</b>	<b>\$ 24,405,219</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>Liabilities</b>		
Members' deposits (Note 9)	\$ 21,717,193	\$ 22,000,221
Other liabilities (Note 10)	260,699	295,305
Member shares (Note 11)	163,835	164,800
	22,141,727	22,460,326
<b>Retained earnings</b>	<b>2,000,948</b>	<b>1,944,893</b>
	<b>\$ 24,142,675</b>	<b>\$ 24,405,219</b>

Approved by the Board

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Director

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Director

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## STATEMENT OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 2009

	2009	2008
<b>Interest income</b> (Note 13)		
Member loans	\$ 1,333,334	\$ 1,296,937
Investment income	90,853	234,173
	<b>1,424,187</b>	<b>1,531,110</b>
<b>Interest expense</b>		
Member deposits (Note 14)	290,229	349,136
Declared distribution to members	102,974	97,946
External borrowings	3,738	12,244
	<b>396,941</b>	<b>459,326</b>
<b>Net interest income</b>	<b>1,027,246</b>	<b>1,071,784</b>
<b>Provision for impaired loans</b> (Note 6)	<b>105,390</b>	<b>137,001</b>
<b>Net interest income after loan losses</b>	<b>921,856</b>	<b>934,783</b>
<b>Other income</b>		
(Loss) gain on investments held for trading	(3,480)	9,659
Other income	333,902	350,951
	<b>330,422</b>	<b>360,610</b>
<b>Net interest and other income</b>	<b>1,252,278</b>	<b>1,295,393</b>
<b>Operating expenses</b>		
Administrative ( <i>Schedule</i> )	347,506	433,543
Data processing	77,632	84,567
Deposit insurance	20,221	19,886
Occupancy costs ( <i>Schedule</i> )	96,483	86,814
Salaries and benefits	607,097	544,523
	<b>1,148,939</b>	<b>1,169,333</b>
<b>Income before undernoted items</b>	<b>103,339</b>	<b>126,059</b>
<b>Other items</b>		
Write-down of ABCP 2008 Limited Partnership	(25,083)	-
Loss on disposal of foreclosed property	(7,263)	(77,486)
Write-down of CUCO shares	(3,074)	(8,126)
	<b>(35,420)</b>	<b>(85,612)</b>
<b>Income before income taxes</b>	<b>67,919</b>	<b>40,447</b>
<b>Income taxes</b>		
Current	27,964	24,934
Future	(16,100)	(17,900)
	<b>11,864</b>	<b>7,034</b>
<b>Net income for the year</b>	<b>56,055</b>	<b>33,413</b>
<b>Retained earnings, beginning of the year</b>	<b>1,944,893</b>	<b>1,911,480</b>
<b>Retained earnings, end of the year</b>	<b>\$ 2,000,948</b>	<b>\$ 1,944,893</b>

See accompanying notes to the financial statements

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2009

	2009	2008
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 56,055	\$ 33,413
Adjustments for:		
Amortization	90,507	94,109
Provision for impaired loans (Note 6)	105,390	137,001
(Loss) gain on investments held for trading	3,480	(9,659)
Write-down of ABCP 2008 Limited Partnership	25,083	-
Write-down of CUCO shares	3,074	8,126
Future income taxes	(16,100)	(17,900)
Loss on foreclosed property	7,263	77,486
	<b>274,752</b>	<b>322,576</b>
Changes in non-cash working capital balances:		
Other current assets	33,722	59,104
Other liabilities	(18,506)	(24,804)
	<b>289,968</b>	<b>356,876</b>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(30,788)	(26,753)
Loans to members - net	(1,379,722)	(2,866,775)
Investments	1,265,034	2,544,595
	<b>(145,476)</b>	<b>(348,933)</b>
<b>Cash flows from financing activities</b>		
Members' deposits	(283,028)	(58,797)
Membership shares	(965)	2,450
	<b>(283,993)</b>	<b>(56,347)</b>
<b>Decrease in cash resources</b>	<b>(139,501)</b>	<b>(48,404)</b>
<b>Cash resources, beginning of the year</b>	<b>1,033,980</b>	<b>1,082,384</b>
<b>Cash resources, end of the year</b>	<b>\$ 894,479</b>	<b>\$ 1,033,980</b>
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 431,819	\$ 516,974
Income taxes paid	41,830	10,842

See accompanying notes to the financial statements

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

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### **Nature of business**

Thamesville Community Credit Union Limited (the "Credit Union") is a financial institution incorporated under the Business Corporations Act of Ontario and operates in accordance with the Credit Unions and Caisses Populaires Act, 1994. The Credit Union provides financial products and services to members throughout Ontario.

### **1. Significant accounting policies**

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

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

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

#### **Use of estimates**

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

#### **Investments**

Investments designated as held for trading are carried at fair value based on published market prices. Gains and losses are included in investment income for the period in which they arise.

Investments classified as loans and receivables are accounted for at amortized cost, using the effective interest method.

Investments designated as available for sale are carried at fair value where such a value can be reliably measured, otherwise they are carried at cost. Unrealized gains and losses are recognized directly in other comprehensive income. In the period in which the asset is sold, or otherwise derecognized, the cumulative gain or loss, previously recorded in accumulated other comprehensive income, is recognized in net income.

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

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

#### Capital assets

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

Asset	Period	Method
Building	4%	straight-line
Parking and groundscape	8%	diminishing balance
Furniture and equipment	20%	diminishing balance
Computer equipment	20%	straight-line
Leasehold improvements	term of lease	straight-line

#### Loans to members

Loans to members are stated at amortized cost. Interest income is recorded using the effective interest rate method over the terms of the loans. Loan fees are included in the effective interest rate and are recognized over the terms of the loans.

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

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

#### Allowance for impaired loans

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

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

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

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

#### Members' deposits

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

#### Financial instruments

The Credit Union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of members' share accounts and the related interest/dividends paid on such financial instruments. In accordance with these recommendations, which have been adopted on a retroactive basis, the Credit Union's shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification. Interest/dividends on these amounts are reported in the statement of operations and retained earnings as a financial expense.

#### Income taxes

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

#### Translation of foreign currencies

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

### 2. Future changes in accounting policy

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year ended October 31, 2012. The Credit Union is currently evaluating the impact of adopting IFRS.

### 3. Cash resources

The term "cash resources" as used in these financial statements consists of cash on hand and funds on deposit in current accounts. The Credit Union has available a line of credit of \$460,500 to cover shortfalls in cash resources due to unanticipated volume in clearings. This line of credit is secured by a general security agreement and an assignment of book debts. At October 31, 2009, the line of credit was not utilized.

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 4. Investments

	2009	2008
<b><u>Loans and receivables</u></b>		
Central 1 Credit Union		
Liquidity reserve deposit	\$ 1,462,996	\$ -
Term deposits	2,050,000	-
Accrued interest	33,530	-
	<b>3,546,526</b>	-
<b><u>Held for Trading</u></b>		
Central 1 Credit Union		
Liquidity reserve deposit	224,141	1,770,421
Term deposits	-	3,217,662
	<b>224,141</b>	<b>4,988,083</b>
<b><u>Available for Sale</u></b>		
Credit Union Central of Ontario shares	33,712	211,494
Central 1 Class A shares	60,624	1
Central 1 Class E shares	94,300	-
ABCP Limited Partnership	114,341	178,000
	<b>302,977</b>	<b>389,495</b>
	<b>\$ 4,073,644</b>	<b>\$ 5,377,578</b>

The market value of investments classified as loans and receivables is \$3,540,317 (2008 - \$nil).

The Credit Union was not required to classify any investments as held for trading, but has chosen to designate those indicated. Investments designated as held for trading are carried at their fair value.

#### **Central 1 Credit Union liquidity reserve deposit**

As a condition of maintaining membership in Central 1 Credit Union ("Central 1") in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 7% of the Credit Union's total assets updated at each calendar quarter end. The liquidity reserve deposit bears interest at a rate which is fixed periodically and is callable by the Credit Union on ninety days notice.

#### **Central 1 Credit Union shares**

Effective July 1, 2008, Credit Union Central of Ontario (CUCO) merged with Credit Union Central of British Columbia to form a new entity, Central 1 Credit Union ("Central 1"). Central 1 assumes the responsibility of being the credit union central in both provinces.

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain a minimum level of investment in shares of Central 1. The minimum level of investment is determined annually based on the Credit Union's total assets at year end.

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 4. Investments (continued)

The merger was affected through the acquisition of CUCO's net assets and the Credit Union has received the Class A and Class E shares in Central 1. During the year, the value of these shares were determined to be impaired and the Credit Union wrote them down with a charge to income of \$3,074 (2008 - \$8,126).

No market exists for the shares of CUCO or Central 1. The shares may be surrendered on withdrawal from membership with appropriate notice for proceeds equal to the carrying value.

#### ABCP Limited Partnership

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership ("ABCP LP"), to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. The Credit Union owns ABCP LP units equal to 0.1333% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

The Credit Union carries its investment in the ABCP LP at its share of the fair value of the partnership as estimated by the general partner. Approximately 80% of the ABCP held in the partnership is subject to a court-sanctioned restructuring process known as the "Montreal Accord". The remaining investment is in Apex Trust which has been restructured by the sponsor. Both restructurings involved replacing the original short-term ABCP with various classes of long-term notes. The notes bear a variety of interest rates between 0% and 5% with most floating with a premium or discount to the Bankers' Acceptance rate.

As at September 30, 2009, the ABCP LP determined or estimated the principal characteristics of its notes, including the interest rate, maturity date and credit rating. It then estimated the yield that a potential investor would require to purchase each class of notes. The ABCP LP used this information to calculate a fair value for each class of notes. Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

The Credit Union has accepted its proportionate share of ABCP LP's net asset value of \$85 million as the value of its investment at year end. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

### 5. Loans to members

	2009	2008
Mortgages	\$ 8,041,406	\$ 8,076,625
Personal	5,060,916	5,570,689
Agricultural	2,525,488	1,525,898
Commercial	3,154,551	2,372,145
Accrued interest	62,420	36,945
	<b>18,844,781</b>	17,582,302
Less: allowance for impaired loans	<b>422,318</b>	434,170
	<b>\$ 18,422,463</b>	\$ 17,148,132

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

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### 5. Loans to members *(continued)*

The loan classifications set out above are as defined in the Regulations to the Credit Unions and Caisses Populaires Act, 1994.

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

Personal loans including line of credit loans, are repayable to the Credit Union in monthly blended principal and interest instalments over a maximum term of five years, except for line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. All personal loans are open and, at the option of the borrower, may be paid off at any time without notice.

Commercial loans are secured by a mortgage on real property and are repayable to the Credit Union in weekly or monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of twenty-five years.

As at October 31, 2009, the Credit Union was committed to the issuance of mortgage loans and letters of credit to members in the aggregate amount of \$200,625 (2008 - \$319,851).

At October 31, 2009, the approved unused line of credit limits amount to \$1,989,286 (2008 - \$2,085,274).

### 6. Allowance for impaired loans

	2009	2008
Balance at beginning of year	\$ 434,170	\$ 443,979
Loans written off	(131,852)	(174,358)
Loans recovered	14,610	27,548
	316,928	297,169
Provision charged to operations	105,390	137,001
Balance at end of year	\$ 422,318	\$ 434,170

The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. The Credit Union's policy dictates that total personal loans may not exceed 60% of assets, residential mortgages may not exceed 50% of assets, commercial loans may not exceed 30% of assets and agricultural loans may not exceed 25% of assets. Additionally, the Credit Union has a maximum limit on the value by type of loan to individuals and connected parties.

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with the bylaw of the Deposit Insurance Corporation of Ontario governing such allowances.

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 6. Allowance for impaired loans (continued)

	Allowance for impaired loans balance		Aggregate impaired loans	
	2009	2008	2009	2008
Mortgages	\$ 1,588	\$ -	\$ 626,043	\$ 109,662
Personal	214,410	289,544	229,349	306,416
Agricultural	-	-	46,071	-
Commercial	36,107	40,107	87,876	95,729
Non-specific/general	170,213	104,519	-	-
	\$ 422,318	\$ 434,170	\$ 989,339	\$ 511,807

### 7. Other assets

	2009	2008
Prepaid expenses	\$ 43,285	\$ 37,981
Property acquired by foreclosure - held for resale	-	55,126
Future income taxes	46,500	30,400
	\$ 89,785	\$ 123,507

### 8. Capital assets

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Land	\$ 117,894	\$ -	\$ 117,894	\$ 117,894
Building	615,835	166,240	449,595	462,420
Parking and groundscape	38,224	11,983	26,241	28,522
Furniture and equipment	106,983	60,767	46,216	38,480
Computer equipment	299,900	282,525	17,375	68,477
Leasehold improvements	6,229	1,246	4,983	6,229
	\$ 1,185,065	\$ 522,761	\$ 662,304	\$ 722,022

Amortization expense for the year amounted to \$90,507 (2008 - \$94,109).

Assets under capital lease are included in computer equipment and are recorded at a cost of \$143,000 (2008 - \$143,000) and accumulated amortization of \$126,394 (2008 - \$97,794). Interest expense during the year related to capital leases and was \$2,677 (2008 - \$4,762).

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 9. Members' deposits

	2009	2008
Profit savings	\$ 7,800,001	\$ 7,406,927
Term deposits	7,141,424	7,537,974
Chequing	4,567,683	4,782,119
Registered savings plans	1,728,285	1,717,037
Demand	335,453	369,622
Accrued interest	144,347	186,542
	<b>\$ 21,717,193</b>	<b>\$ 22,000,221</b>

### Registered plans

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

### 10. Other liabilities

	2009	2008
Accounts payable and accrued charges	\$ 133,153	\$ 127,611
Obligations under capital lease	21,321	52,243
Income taxes payable	3,038	16,904
Distribution to members	103,187	98,547
	<b>\$ 260,699</b>	<b>\$ 295,305</b>

Obligations under capital lease are reduced by payments net of imputed interest. Minimum annual commitments under capital leases are as follows:

	2009	2008
Minimum lease commitments		
2009	\$ -	\$ 33,600
2010	22,400	22,400
Total minimum lease payments	22,400	56,000
Less: imputed interest	1,079	3,757
	<b>\$ 21,321</b>	<b>\$ 52,243</b>

### 11. Member shares

The Credit Union has 3,277 (2008 - 3,296) members. As a condition of membership, each member must hold a minimum of 10 membership shares with an issue price of \$5 each. Shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 12. Capital adequacy

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

The processes for managing capital include setting the policy for capital management, setting policies in related areas, establishing budgets and reporting monthly to the Board of Directors regarding financial results and capital adequacy, in relation to the statutory minimum.

In accordance with the requirements of the Credit Unions and Caisses Populaires Act, 1994 and accompanying Regulations, credit unions are required to maintain sufficient capital to meet two tests:

(a) Leverage test:

Regulatory capital, primarily comprising of membership shares, any other class of qualifying capital that may be issued, retained earnings and the non-specific/general allowance for impaired loans, must amount to at least 4.0% (2008 - 4.25%) of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 6.75% of total assets.

(b) Risk-weighted assets test:

Regulatory capital, as defined above, must amount to at least 8% of risk-weighted assets. The risk weighting of assets is specified in the Regulations to the Act. The Credit Union has established an internal policy to maintain regulatory capital at no less than 10.0% of risk-weighted assets.

As at October 31, 2009, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital, as outlined in the following table:

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

	2009	2008
<b><u>Tier 1 capital</u></b>		
Membership shares	\$ 163,835	\$ 164,800
Retained earnings	2,000,948	1,944,893
<b>Total Tier 1 capital and Regulatory Capital</b>	<b>2,164,783</b>	2,109,693
<b><u>Tier 2 capital</u></b>		
General provisions	151,889	104,519
<b>Total Tier 2 capital</b>	<b>151,889</b>	104,519
Tier 1 and Tier 2 capital	2,316,672	2,214,212
Future income taxes	-	(30,400)
<b>Total Regulatory Capital</b>	<b>\$ 2,316,672</b>	<b>\$ 2,183,812</b>
<b>Leverage test ratio:</b>	<b>9.6%</b>	8.9%
<b>Risk-weighted assets test ratio:</b>	<b>15.5%</b>	15.8%

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 13. Interest income

Interest income is generated as follows:

	2009	2008
Residential mortgages	\$ 509,854	\$ 484,966
Personal loans	507,696	613,400
Agricultural loans	137,793	46,298
Commercial loans	177,991	152,273
Interest on member loans	1,333,334	1,296,937
Investments classified as available for sale	2,483	-
Financial assets other than those held for trading	1,335,817	1,296,937
Investments classified as held for trading	88,370	234,173
	\$ 1,424,187	\$ 1,531,110

### 14. Interest expense on member deposits

Interest expense on member deposits is generated as follows:

	2009	2008
Demand	\$ 52	\$ 959
Term	239,582	291,132
Registered savings plans	50,595	57,045
	\$ 290,229	\$ 349,136

### 15. Income taxes

The Credit Union's basic statutory tax rate is approximately 17%. Any future income taxes included in other liabilities are the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes. The temporary differences relate primarily to claiming capital cost allowance for income tax purposes in excess of amortization on capital assets for financial reporting purposes.

### 16. Commitments

The Credit Union is committed to the following monthly annual payments under operating leases for office premises in Wardsville and ATM equipment:

	2009	2008
2009	\$ -	\$ 17,150
2010	17,750	17,750
2011	7,500	7,500
2012	-	-
Total minimum lease payments	\$ 25,250	\$ 42,400

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 17. Restricted party transactions

As at October 31, 2009, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$1,605,742 (2008 - \$990,443). There was no allowance for impaired loans required in respect of these loans as at October 31, 2009.

The Regulations require the financial statements to disclose a general description of the nature, number and aggregate value of Restricted Party transactions, as defined, and the allowance for loan losses related to such transactions. Restricted Party has been defined to include a person, and the person's relative, spouse, or relative of the spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

### 18. Additional disclosures required by the Act

The only remuneration paid to directors and committee members was for travel allowance and expenses for attendance at meetings.

### 19. Fair value of financial instruments

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

	Book Value	Estimated Fair Value	2009 Difference	2008 Difference
<b>Assets</b>				
Cash resources	\$ 894,479	\$ 894,479	\$ -	\$ -
Investments	4,073,644	4,067,435	(6,209)	-
Loans to members	18,422,463	18,830,203	407,740	21,145
<b>Liabilities</b>				
Members' deposits	21,717,193	21,911,028	193,835	132,001

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

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

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

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

#### Liquidity risk

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

The Credit Union's liquidity management policy outlines the processes for managing liquidity risk, including maintaining high quality liquid investments, maintaining a credit facility with Central 1 Credit Union (see Note 3) and monthly reporting to the Board of Directors regarding the Credit Union's liquidity level, in relation to the statutory minimum. In addition, the Credit Union continually monitors cash flows, the significance of large deposits and loan commitments relative to its liquidity.

The liquidity ratio represents the ratio of assets qualifying as liquid assets under the Act to the sum of members' deposits and borrowings. The Credit Union has established an internal policy to maintain a liquidity ratio at no less than 8%. At October 31, 2009, the liquidity ratio is 14.3%, which is in compliance with policy.

#### Credit risk

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

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

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

The Credit Union's exposure to the risk of loss on impaired or potentially impaired loans is set out in Note 6. In addition, there are loans amounting to \$706,510 that are past due, but not considered impaired as at October 31, 2009.

#### Interest rate risk

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

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2009

### 20. Nature and extent of risks arising from financial statements *(continued)*

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

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

	Variable Rate	Less than one year	One to five years	Non-rate Sensitive	Total	Effective Interest Rate
Cash resources	\$ 500,552	\$ -	\$ -	\$ 393,927	\$ 894,479	0.56%
Investments	-	2,426,772	1,343,895	302,977	4,073,644	1.55%
Loans to members	5,132,851	1,523,778	11,765,834	-	18,422,463	6.98%
<b>Total</b>	<b>5,633,403</b>	<b>3,950,550</b>	<b>13,109,729</b>	<b>696,904</b>	<b>23,390,586</b>	
Members' deposits	8,295,562	4,179,048	4,530,553	4,712,030	21,717,193	1.58%
Member shares	-	-	-	163,835	163,835	5.00%
<b>Total</b>	<b>8,295,562</b>	<b>4,179,048</b>	<b>4,530,553</b>	<b>4,875,865</b>	<b>21,881,028</b>	
Matching gap	\$ (2,662,159)	\$ (228,498)	\$ 8,579,176	\$ (4,178,961)	\$ 1,509,558	

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union is required by statute and internal policy to limit its earnings at risk to a possible change in interest rates to within 15 basis points of assets. At October 31, 2009, management estimates that its exposure to a decline in interest rates is a reduction in net interest income of 8 basis points of assets.

#### Foreign currency exchange risk

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

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

Net foreign exchange gains of \$12,336 (2008 - \$17,509) have been included in other income on the statement of income and retained earnings for the year ended October 31, 2009.

### 21. Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

# THAMESVILLE COMMUNITY CREDIT UNION LIMITED

## SCHEDULE OF EXPENSES

FOR THE YEAR ENDED OCTOBER 31, 2009

	2009	2008
<b>Administrative</b>		
Advertising and promotion	\$ 18,850	\$ 22,698
Amortization of office equipment	8,073	8,940
Bonding	20,339	19,162
Collection costs	3,324	18,862
Education	7,148	10,714
League dues	10,880	16,021
Office and general	99,982	106,264
Professional fees	25,612	32,441
RRSP management fees	6,122	6,105
Service charges	125,816	170,665
Telephone	21,360	21,672
	<b>\$ 347,506</b>	<b>\$ 433,544</b>
<b>Occupancy costs</b>		
Amortization of buildings	\$ 24,402	\$ 23,508
Amortization of leaseholds	1,246	-
Amortization of parking area and groundscape	2,281	2,484
Property taxes and insurance	22,376	21,298
Rent	17,150	16,550
Repairs and maintenance	16,639	11,139
Utilities	12,389	11,835
	<b>\$ 96,483</b>	<b>\$ 86,814</b>