



Your  
**CREDIT  
UNION**

It's all about people



**Financial Statements**  
For the year ended September 30, 2008

**Your Credit Union Limited**  
**Financial Statements**  
For the year ended September 30, 2008

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## Management Report

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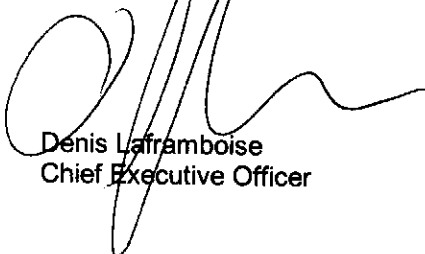
### Management's Responsibility for the Financial Statements

The accompanying financial statements of Your Credit Union Limited for the year ended September 30, 2008 are the responsibility of the Credit Union's management and have been prepared in compliance with legislation and in accordance with Canadian generally accepted accounting principles. The accounting policies followed by the Credit Union are included in the summary of significant accounting policies accompanying the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Credit Union's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Audit Committee of the Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Audit Committee's approval of the financial statements.

The financial statements have been audited by Collins Barrow Ottawa LLP, independent external auditors appointed by the Credit Union's members. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Credit Union's financial statements.



Denis Laframboise  
Chief Executive Officer



Nancy Fitchett, CA  
Chief Financial Officer

October 24, 2008

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## Auditors' Report

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**To the Members of  
Your Credit Union Limited**

We have audited the balance sheet of Your Credit Union Limited as at September 30, 2008 and the statements of undivided earnings, operations 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 September 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Ottawa LLP*

Chartered Accountants, Licensed Public Accountants

October 24, 2008

## Your Credit Union Limited Balance Sheet

(Tabular amounts expressed in thousands of dollars)

**September 30** **2008** **2007**

### Assets

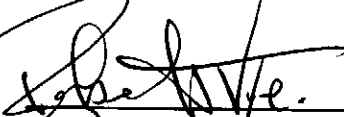
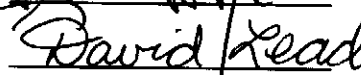
Cash and cash equivalents (Note 1)	\$	15,927	\$	8,282
Loans to members (Note 2)		148,732		147,259
Investments (Note 3)		19,969		16,899
Accrued interest receivable		355		306
Accounts receivable		88		113
Income taxes receivable		144		81
Prepaid expenses and other assets		492		426
Property and equipment (Note 4)		5,540		5,775
Unrealized loss on derivative financial instruments transactions (Note 14)		19		445
		191,266		179,586
	\$		\$	

### Liabilities and Members' Equity

#### Liabilities

Accounts payable and accrued liabilities	\$	876	\$	768
Members' deposits (Note 5)		178,943		166,319
Members' shares (Note 6)		3,751		3,917
Future income tax liabilities		60		57
Unrealized gain on derivative financial instruments transactions (Note 14)		19		445
		183,649		171,506
<b>Members' equity</b>				
Undivided earnings		7,617		8,080
	\$	191,266	\$	179,586

On behalf of the Board:

  
 \_\_\_\_\_ Director  
  
 \_\_\_\_\_ Director

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**Your Credit Union Limited**  
**Statement of Undivided Earnings**  
(Tabular amounts expressed in thousands of dollars)

<b>For the year ended September 30</b>	<b>2008</b>	<b>2007</b>
<b>Balance, beginning of year</b>	<b>\$ 8,080</b>	<b>\$ 7,913</b>
<b>Net income (loss) for the year</b>	<b>(463)</b>	<b>167</b>
<b>Balance, end of year</b>	<b>\$ 7,617</b>	<b>\$ 8,080</b>

## Your Credit Union Limited Statement of Operations

(Tabular amounts expressed in thousands of dollars)

<b>For the year ended September 30</b>	<b>2008</b>	<b>2007</b>
<b>Interest revenue</b>		
Personal loans	\$ 1,681	\$ 2,003
Mortgages and commercial loans	7,186	6,800
	<u>8,867</u>	<u>8,803</u>
<b>Income from investments designated as held-for-trading</b>	<u>874</u>	<u>817</u>
	<b>9,741</b>	<b>9,620</b>
<b>Interest expense (Note 9 a.)</b>	<u>4,733</u>	<u>4,110</u>
<b>Financial margin</b>	<b>5,008</b>	<b>5,510</b>
<b>Other revenue (Note 9 d.)</b>	<u>1,305</u>	<u>1,240</u>
	<u>6,313</u>	<u>6,750</u>
<b>Operating expenses</b>		
Salaries and benefits	3,740	3,166
Amortization of property and equipment	331	325
Provision for losses on loans (Note 2)	174	375
DICO deposit insurance	147	172
Administrative expenses	2,473	2,439
	<u>6,865</u>	<u>6,477</u>
<b>Operating income (loss)</b>	<b>(552)</b>	<b>273</b>
<b>Dividends on membership shares</b>	<u>47</u>	<u>51</u>
<b>Income (loss) before income taxes</b>	<u>(599)</u>	<u>222</u>
<b>Income taxes</b>		
Current (recovered)	(139)	44
Future	3	11
	<u>(136)</u>	<u>55</u>
<b>Net income (loss) for the year</b>	<b>\$ (463)</b>	<b>\$ 167</b>

**Your Credit Union Limited**  
**Statement of Cash Flows**  
(Tabular amounts expressed in thousands of dollars)

<b>For the year ended September 30</b>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Net income (loss) for the year	\$ (463)	\$ 167
Adjustments for		
Dividends on Class B Investment shares (Note 9)	144	165
Provision for losses on loans (Note 2)	174	375
Amortization of property and equipment	331	325
Future income taxes	3	11
Net decrease (increase) in fair value of financial instruments	50	43
	239	1,086
Net changes in non-cash working capital items (Note 13)	(45)	205
	194	1,291
<b>Cash flows from investing activities</b>		
Net decrease (increase) in loans to members	(1,647)	(4,756)
Net decrease (increase) in investments	(3,120)	2,424
Disposal (purchase) of property and equipment	(96)	(151)
	(4,863)	(2,483)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in members' deposits	12,624	342
Net increase (decrease) in membership shares (Note 6)	1	(6)
Net increase (decrease) in Class B Investment shares (Note 6)	(311)	(310)
	12,314	26
<b>Increase (decrease) in cash and cash equivalents</b>	<b>7,645</b>	<b>(1,166)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>8,282</b>	<b>9,448</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 15,927</b>	<b>\$ 8,282</b>
<b>Interest and income taxes paid (recovered)</b>		
Interest paid	\$ 4,194	\$ 3,847
Income taxes paid (recovered)	\$ (77)	\$ 178

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## Your Credit Union Limited

### Summary of Significant Accounting Policies

**September 30, 2008**

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**Nature of Business** The Credit Union is incorporated under the Credit Unions and Caisses Populaire Act of Ontario (the Act) and is a member of the Deposit Insurance Corporation of Ontario (DICO) and Credit Union Central of Ontario (CUCO). On July 1, 2008, CUCO sold substantially all of its net assets to Central 1 Credit Union (Central 1) in exchange for shares and cash. As of that date, the Credit Union became a member of Central 1.

The Credit Union follows Canadian generally accepted accounting principles.

**Use of Estimates** The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates and assumptions as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known.

**Foreign Currency Translation** Transactions during the year in foreign currency have been converted to Canadian dollars using the exchange rate in effect at the date of the transaction. All monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the year-end. The resulting foreign exchange gains and losses are included in the statement of operations for the year.

**Financial Instruments** All financial assets are classified as held-for-trading, held-to-maturity, available-for-sale or loans and receivables. Financial liabilities are classified as held-for-trading or other liabilities. Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading, and are accounted for at fair value with the change in the fair value recognized in the results of operations. Those assets that have a fixed maturity date, where the Credit Union intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest method. Loans and receivables are also accounted for at amortized cost using the effective interest method. Member deposits are classified as other liabilities and are carried at amortized cost using the effective interest method. Member shares are also classified as other liabilities and are carried at amortized cost.

When initially recognized, all financial assets and liabilities are recorded at fair value on the balance sheet. In subsequent periods, financial instruments are valued at fair value, except for items that are classified in the following categories, which will be measured at amortized cost. These categories are loans and receivables, assets that do not have a reasonably determinable market value (i.e. shares and units in the limited partnership) and other liabilities.

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## Your Credit Union Limited Summary of Significant Accounting Policies

**September 30, 2008**

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<b>Financial Instruments</b> (continued)	An allowance for impairment that is other than temporary for financial assets measured at amortized cost is recognized in the results of operations.												
<b>Fair Values</b>	The fair values used in these financial statements have been determined at market prices quoted by investment brokers.												
<b>Cash and Cash Equivalents</b>	Cash and cash equivalents consist of the Credit Union's cash on hand, Central 1 balances on deposit and short-term investments with original maturities at acquisition of 90 days or less with the exception of short-term investments that are part of the liquidity reserve deposit with Central 1. All investments that form part of the liquidity reserve deposit with Central 1 are included in "Investments".												
<b>Allowance for Impaired Loans</b>	A loan becomes impaired as a result of deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. The Credit Union calculates the allowance for impaired loans on an individual account basis substantially as set out in directives issued by DICO, including By-law #6. For each loan more than 90 days in arrears, the allowance is calculated equal to the amount which the principal balance exceeds the estimated net realizable value of collateral, and all uncollected interest. In addition, allowance is made for those loans, not in arrears, the collection of which is doubtful.												
<b>Property and Equipment</b>	<p>Property and equipment are recorded at cost. Amortization of these assets is calculated using the straight-line method over the estimated useful lives set out below.</p> <table><tr><td>Buildings</td><td>20 to 40 years</td></tr><tr><td>Furniture</td><td>5 to 10 years</td></tr><tr><td>Equipment</td><td>5 to 15 years</td></tr><tr><td>Office machinery</td><td>3 to 5 years</td></tr><tr><td>Automated Teller Machines (ATMs)</td><td>10 years</td></tr><tr><td>Leasehold improvements</td><td>10 years</td></tr></table>	Buildings	20 to 40 years	Furniture	5 to 10 years	Equipment	5 to 15 years	Office machinery	3 to 5 years	Automated Teller Machines (ATMs)	10 years	Leasehold improvements	10 years
Buildings	20 to 40 years												
Furniture	5 to 10 years												
Equipment	5 to 15 years												
Office machinery	3 to 5 years												
Automated Teller Machines (ATMs)	10 years												
Leasehold improvements	10 years												
<b>Revenue Recognition</b>	The Credit Union's primary revenue consists of interest revenue, including interest earned on loans and mortgages. The Credit Union recognizes interest revenue as it is earned with the passage of time, except for interest on impaired loans which is not recognized as revenue.												
<b>Income Taxes</b>	The Credit Union uses the liability method of tax allocation to account for income taxes. Future income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. These amounts are also re-measured annually to account for changes in tax rates.												

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## Your Credit Union Limited Summary of Significant Accounting Policies

**September 30, 2008**

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**Accounting Changes**      The Credit Union has adopted three new standards issued by the Canadian Institute of Chartered Accountants:

*Section 1535 Capital Disclosures;  
Section 3862 Financial Instruments – Disclosures; and  
Section 3863 Financial Instruments – Presentation.*

The adoption of these standards had no impact on the financial statements. They required minor amendments to the notes to the financial statements.

**Risk Management**      The Credit Union has in place appropriate and prudent policies, procedures and controls to manage interest rate risk, liquidity risk, capital risk, credit risk, market risk and enterprise risk. The Audit Committee of the Board of Directors reviews the Credit Union's compliance with its risk management policies.

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**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

**1. Cash and Cash Equivalents**

The majority of cash is held at Central 1 in accounts bearing interest at approximately 0.25%.

**2. Loans to Members**

	<b>2008</b>	<b>2007</b>
Personal loans	<b>\$ 14,762</b>	\$ 17,423
Mortgages and commercial loans	<b>133,970</b>	129,836
	<b>\$ 148,732</b>	\$ 147,259

**Personal loans**

	<b>2008</b>						<b>2007</b>	
	On Demand	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Total	Total
Variable	\$ 9,254	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,254	\$ 10,212
Fixed	-	510	942	1,373	1,205	1,980	6,010	8,014
							<b>15,264</b>	<b>18,226</b>
Less:								
Provision for losses on loans							<b>502</b>	<b>803</b>
							<b>\$ 14,762</b>	<b>\$ 17,423</b>
Effective interest rate before provision for losses on loans	<b>8.70%</b>	<b>10.56%</b>	<b>10.91%</b>	<b>11.31%</b>	<b>10.44%</b>	<b>9.61%</b>	<b>9.39%</b>	<b>10.10%</b>

Personal loans consist of consumer installment loans, lines of credit and other personal loans. These loans may be repaid in full or in part at any time without notice or penalty. Personal loans may be amortized over a maximum of 7 years, unless collateralized by real property in which case the amortization period can be up to 15 years. Interest rates on personal loans and other advances may be fixed for a maximum of 5 years.

The Credit Union mitigates its credit risk exposure with respect to personal loans by limiting the aggregate principal amounts of personal loans to a member at any given time to \$50,000, by performing a thorough credit analysis prior to approval of the loan and by obtaining collateral when necessary.

**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

**2. Loans to Members (continued)**

**Mortgages and commercial loans**

							2008	2007
	On Demand	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 7 years	Total	Total
Variable	\$ 22,085	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,085	\$ 21,694
Fixed	-	21,002	33,927	7,476	22,696	27,084	112,185	108,444
	<u>\$ 22,085</u>	<u>\$ 21,002</u>	<u>\$ 33,927</u>	<u>\$ 7,476</u>	<u>\$ 22,696</u>	<u>\$ 27,084</u>	<u>134,270</u>	130,138
Less:								
Provision for losses on loans							300	302
							<u>\$ 133,970</u>	<u>\$ 129,836</u>
Effective interest rate before provision for losses on loans	5.69%	5.52%	5.08%	5.35%	5.36%	5.57%	5.41%	5.61%

Mortgages and commercial loans include \$34,110,000 (2007 - \$33,646,000) of mortgages collateralized by real property such as a principal residence and non-owner occupied properties insured by Canada Mortgage and Housing Corporation (CMHC). These mortgages yield interest at an average of 5.21% (2007 - 5.05%).

The amount of commercial loans included in the above tables was \$12,884,000 as at September 30, 2008 (2007 - \$12,231,000) and consisted of mortgages on commercial and investment properties. There were no loans to unincorporated associations at the end of the year. The interest earned on commercial loans was \$836,000 (2007 - \$836,000) during the year.

As at September 30, 2008, conventional mortgage advances may be made up to a maximum of 80% of the appraised value of the underlying property. Mortgages in excess of 80% of the value of the underlying property are insured with CMHC. The maximum amount of residential mortgages to a member at any given time is \$700,000 (\$1,000,000 for commercial mortgages).

Mortgages may be pre-approved and interest rates committed up to 90 days prior to the mortgage being advanced. As at September 30, 2008 mortgages totaling \$3,590,000 (2007 - \$1,589,000) had been approved but not yet disbursed, the longest term of which was 5 years.

**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

**2. Loans to Members (continued)**

**Mortgages and commercial loans (continued)**

Mortgages are repaid in weekly, bi-weekly, monthly or bi-monthly instalment payments and are generally amortized over a maximum of 25 years. Mortgages may be prepaid at the mortgagor's option by one lump sum payment per year not exceeding 20% of the original mortgage amount, and/or by increasing the monthly instalments once yearly by 20% of the previous instalment amount. Repayment in full prior to maturity is subject to a penalty equal to the greater of:

- 3 months' interest on the outstanding mortgage balance; and
- the interest rate differential between the current market rate and effective interest rate applied on the outstanding balance of the remaining term of the mortgage.

Interest rates on mortgages are at a variable rate or they may be fixed for a maximum of 7 years.

**Provision for losses on loans**

	2008	2007
Balance, beginning of year	\$ 1,105	\$ 905
Add: Recoveries on loans previously written off	9	19
	1,114	924
Deduct: Loans written off	486	194
	628	730
Provision charged to operations	174	375
Balance, end of year	\$ 802	\$ 1,105

The allowance for impaired loans consists of an allowance for specific impaired loans and a non-specific provision for potential losses on other loans. The gross principal amounts of specific impaired loans at the end of the year are as follows:

	2008	2007
Personal loans	\$ 250	\$ 650
Mortgages and commercial loans	667	356
	917	1,006
Gross principal amount of loans	(690)	(400)
Less: Fair value of security	\$ 227	\$ 606
Allowance for specific impaired loans		

The non-specific provision for potential losses on other personal loans at September 30, 2008 amounts to \$275,000 (2007 - \$197,000), and for other mortgages and commercial loans \$300,000 (2007 - \$302,000).

**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

**3. Investments**

	2008	2007
Liquidity Reserve Deposit	\$ 13,978	\$ 12,742
Shares	1,615	1,065
Fixed Income Securities	3,069	3,092
Units in Limited Partnership	1,307	-
	\$ 19,969	\$ 16,899

The Credit Union has classified the liquidity reserve deposit and fixed income securities investments as held-for-trading, and therefore carries them at fair value. The shares and units in the limited partnership are not equity instruments under Canadian generally accepted accounting principles. They do not have a reasonably determinable market value and are therefore stated at amortized cost.

**Liquidity Reserve Deposit – Central 1 (formerly CUCO)**

Credit unions who are members of Central 1 are required to invest 7% of total assets (adjusted as at the end of each quarter) in a "Liquidity Reserve Deposit" with Central 1. The Credit Union has complied with this requirement. The deposit can be withdrawn only through withdrawal from membership or reductions in the balance of the Credit Union's own members' shares and deposits.

At September 30, 2008, the Credit Union held term and discount deposits with Central 1 representing its "Liquidity Reserve Deposit", which bear interest from 2.89% to 4.31% and mature between January 2009 and April 2010.

**Shares – CUCO and Central 1**

	2008	2007
Shares - CUCO	\$ 1,615	\$ 1,065
Shares - Central 1	-	-
	\$ 1,615	\$ 1,065

The shares in CUCO must be maintained at 0.60% of the Credit Union's total assets at December 31 of the previous year. The Credit Union has complied with this requirement. The shares can be redeemed at cost only through withdrawal from membership or reductions in the balance of the Credit Union's total assets, and are subject to the right of the Board of Directors of CUCO to impose limitations on the proportion and timing of amounts to be refunded. Dividends on these shares are at the discretion of the Board of Directors of CUCO.

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**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

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3. **Investments (continued)**

**Shares – CUCO and Central 1 (continued)**

During the past year, Credit Unions were subject to capital calls from CUCO of 20 basis points (0.20%) of total assets as at December 31, 2006, and 10 basis points (0.10%) of total assets at December 31, 2007. For the Credit Union, this amounted to \$355,000 and \$180,000 respectively. The capital calls were approved due to the developments in the credit markets, including the uncertainty related specifically to asset-backed commercial paper (ABCP).

On July 1, 2008, CUCO sold substantially all of its net assets to Central 1 in exchange for shares and cash. As a result of the transaction, the Credit Union received 1 class A share in Central 1 at a par value of \$1. Shares held in CUCO will be exchanged for cash and shares in Central 1 on the final adjustment date under the Combination Agreement. It is possible that the value of the Central 1 shares and cash received may be lower than the current carrying value of the CUCO shares. The adjustment, if any, will be recorded when additional information becomes available to the Credit Union.

**Fixed Income Securities**

	<u>Balance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Ontario Bond	\$ 2,013	4.54%	December 2008
Central 1 Bond	<u>1,056</u>	4.37%	April 2011
	<u>\$ 3,069</u>		

**Units in Limited Partnership**

On June 30, 2008, a limited partnership was created to acquire asset-backed commercial paper (ABCP) from CUCO prior to the sale of its net assets to Central 1 on July 1, 2008. The limited partnership acquired ABCP from CUCO with a par value of \$186,916,000 and recorded it at its estimated fair value of \$133,564,000. As a condition of membership, all Ontario credit unions must own a proportionate share of the limited partnership ("units"). The Credit Union's proportionate share of the fair value acquired is \$1,307,000.

The fair value at June 30, 2008 was determined by a firm engaged by CUCO to provide an independent valuation of the assets underlying the ABCP investments. The next valuation is expected to be completed at December 31, 2008.

There is currently no liquid market for most of the ABCP investments, and an updated valuation has not been received. Pursuant to the Montreal Accord, an agreement regarding the restructuring of ABCP, most of the ABCP held by the limited partnership is expected to be converted to long-term notes.

It is possible that the value of the units in the limited partnership may be lower than the Credit Union's current carrying amount of \$1,307,000. The adjustment, if any, will be recorded when additional valuation information becomes available to the Credit Union.

**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

**4. Property and Equipment**

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 456	\$ -	\$ 456	\$ 456	\$ -	\$ 456
Buildings	5,125	832	4,293	5,100	690	4,410
Furniture	729	298	431	711	233	478
Equipment	154	106	48	144	101	43
Office machinery and ATMs	905	643	262	953	629	324
Leasehold improvements	287	237	50	287	223	64
	<b>\$ 7,656</b>	<b>\$ 2,116</b>	<b>\$ 5,540</b>	<b>\$ 7,651</b>	<b>\$ 1,876</b>	<b>\$ 5,775</b>

**5. Members' Deposits**

	2008	2007
Savings and chequing accounts	\$ 72,002	\$ 65,751
Term deposits	36,357	35,226
Registered retirement plans (RRSPs and RRIFs)	65,227	60,364
Leave plans	3,376	3,392
	<b>176,962</b>	<b>164,733</b>
Accrued interest payable	1,981	1,586
	<b>\$ 178,943</b>	<b>\$ 166,319</b>

**Summary of members' deposits (excluding accrued interest payable)**

	2008				2007	
	On Demand	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Total	Total
Savings and chequing accounts	\$ 72,002	\$ -	\$ -	\$ -	\$ 72,002	\$ 65,751
Term deposits	-	22,448	11,649	2,260	36,357	35,226
RRSPs and RRIFs	4,365	23,239	29,313	8,310	65,227	60,364
Leave plans	3,376	-	-	-	3,376	3,392
	<b>\$ 79,743</b>	<b>\$ 45,687</b>	<b>\$ 40,962</b>	<b>\$ 10,570</b>	<b>\$ 176,962</b>	<b>\$ 164,733</b>
Effective interest rate	1.16%	3.34%	3.74%	4.04%	2.59%	2.39%

**Your Credit Union Limited**  
**Notes to Financial Statements**  
(Tabular amounts expressed in thousands of dollars)

**September 30, 2008**

**6. Members' Shares**

	<b>2008</b>	<b>2007</b>
Membership shares	\$ 746	\$ 745
Class B Investment shares	2,857	3,019
Dividends payable on Class B Investment shares	148	153
	<b>\$ 3,751</b>	<b>\$ 3,917</b>

Membership shares along with undivided earnings represent the members' residual interest in the Credit Union's net assets and are included in regulatory capital. The shares are redeemable at their paid-up amount when the member withdraws from membership in the Credit Union. As a condition of membership, each member is required to maintain a minimum of 10 shares at \$5 per share. Members under the age of 18 are not required to purchase membership shares. Dividends are at the discretion of the Board of Directors. As at September 30, 2008, the Credit Union had 14,192 (2007 – 13,950) memberships.

The holders of Class B Investment shares are entitled to receive non-cumulative dividends which will be declared by the Board of Directors and paid annually provided the Credit Union complies with the capital adequacy and liquidity requirements of the Act. The Board of Directors has defined an appropriate dividend rate to be a rate which exceeds the Credit Union's 5-year term deposit rate by 1.0%, and it has also indicated that its intention is to pay these dividends in the form of additional Class B Investment shares. At September 30, 2008 the \$144,000 (2007 - \$165,000) of dividends declared on Class B Investment shares are included in interest expense (Note 9).

Class B Investment shares were not redeemable for five years after their issuance on September 30, 2000. Since September 30, 2005, holders of these shares could request redemption of some or all of their shares and the Credit Union could redeem the shares to a maximum of 10% of the total Class B Investment shares outstanding at the previous year-end. At any time after September 30, 2005 the Credit Union has the option of redeeming all or any portion of these shares subject to the capital and liquidity requirements of the Act. Prior to the 2007 fiscal year there were no redemptions. During the fiscal year 2008, the Board of Directors approved redemptions of \$303,000 (2007 - \$298,000) plus dividends for the 2008 fiscal year up to the date of redemption of \$8,000 (2007 - \$12,000), for a total payment of \$311,000 (2007 - \$310,000).

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**7. Liquidity Requirements**

The Act requires the Credit Union to maintain liquid assets of at least 8.00% of the amount of deposits and borrowings of the Credit Union. As at September 30, 2008 the Credit Union has met this requirement.

The Credit Union has a liquidity policy in place that addresses limits on the sources, quality and amount of liquid assets to meet normal operations, contingency funding for significant deposit withdrawals, and regulatory requirements.

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**8. Regulatory Capital**

The Credit Union has a capital management policy in place that addresses the quantity, quality, and composition of capital needed that reflects the inherent risks of the organization, to support the current and planned operations, and to meet regulatory requirements.

The Act requires the Credit Union to maintain regulatory capital at 4.25% (2007 - 4.5%) of total assets as defined in Regulation 13 of the Act and 8.00% of risk weighted assets as defined in Regulation 15 of the Act. Based on internal unaudited financial reports and quarterly filings to DICO, the Credit Union remained in compliance with the Act and regulations regarding regulatory capital throughout the year.

As at September 30, regulatory capital consists of:

	<u>2008</u>		<u>2007</u>
Members' shares	\$ 3,751	\$	3,917
Undivided earnings	7,617		8,080
Total regulatory capital	<u>\$ 11,368</u>	\$	<u>11,997</u>
Percent of total assets	<u>5.94%</u>		<u>6.68%</u>
Percent of total risk weighted assets	<u>16.91%</u>		<u>16.70%</u>

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**9. Other Statutory Information**

a. Interest expense is attributable to the following accounts:

	2008	2007
Savings and chequing accounts	\$ 897	\$ 742
Term deposits	1,379	1,118
Registered retirement plans (RRSPs and RRIFs)	2,254	2,011
Leave plans	42	43
Funds borrowed from Central 1	17	31
Dividends on Class B Investment shares (Note 6)	144	165
	\$ 4,733	\$ 4,110

b. The total amount of loans and deposits that relate to restricted parties, as defined in Regulation 82 of the Act, at September 30, 2008 are \$1,471,000 and \$875,000 respectively (2007 - \$1,486,000 and \$1,119,000). There are 86 loans to restricted parties at the end of the year. Interest revenue of \$67,000 (2007 - \$78,000) and interest expense of \$26,000 (2007 - \$40,000) relates to restricted parties. No provision for losses is required for these loans.

c. There was no remuneration paid to Board of Directors and committee members during the year.

d. The total amount of commissions earned by the Credit Union on the sale of life and disability insurance on behalf of an underwriter was \$247,000 (2007 - \$239,000).

**10. Fair Values**

The fair values of cash and cash equivalents, accrued interest receivable, accounts receivable, and accounts payable and accrued liabilities, are equivalent to their respective carrying values given the short-term nature of the accounts. Investments, with the exception of shares and units in the limited partnership (see note 3), the unrealized loss on derivative financial instruments transactions, and the unrealized gain on derivative financial instruments transactions are measured at fair value on the Balance Sheet. The difference between the fair value of all other financial assets and financial liabilities is not considered material in relation to the financial statements as a whole.

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**11. Interest Rate Risk**

The Credit Union's fixed rate personal loans of \$6,010,000, fixed rate mortgages and commercial loans of \$112,185,000, fixed rate term deposits of \$36,357,000, and fixed rate registered plans (RRSPs and RRIFs) of \$60,862,000 are exposed to interest rate price risk, which may have a positive or a negative impact on the results of operations.

The Credit Union's variable rate personal loans of \$9,254,000, variable rate mortgages and commercial loans of \$22,085,000, and variable rate deposits (savings and chequing accounts; RRSPs and RRIFs; and leave plans) of \$79,743,000 are exposed to interest rate cash flow risk, which may have a positive or negative impact on the results of operations.

As at September 30, 2008, an immediate and sustained 100 basis points (1%) increase in rates would have resulted in an approximate increase to income before income taxes of \$20,000. An immediate and sustained 100 basis points (1%) decrease in rates would have resulted in an approximate increase to income before income taxes of \$14,000.

There are several assumptions used to prepare the information on interest rate risk sensitivity.

The most significant assumption used in the interest rate risk analysis is that of interest rate forward yield curves. These curves are constructed based on market data. Several yield curves are used in the analysis. They are the mortgage curve, term curve, short-term yield curve and zero yield curve.

Another assumption is that of core deposits. This means that a certain portion of the Credit Union's savings and chequing accounts and undivided earnings balances are allocated to various periods to fill gap differences between total loans and total deposits. A portion of these core deposits is deemed to be variable and, therefore, allocated to the one-month period and the rest is spread evenly over the remaining 60 months.

The last assumption used is that of mortgage pre-payment. This assumes that 5% of the Credit Union's total mortgages balances are prepaid and therefore these cash flows are allocated accordingly to various months throughout the life of the mortgages.

The above methods and assumptions are consistent with the prior year.

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**12. Commitments**

**Collateral arrangements**

The Credit Union has assigned its book debts and signed a general security agreement related to two lines of credit with Central 1. The limits on the lines of credit were \$3,498,000 Cdn. at prime and \$100,000 US at prime and remain unused at year end.

The Credit Union has an additional line of credit with Central 1 in the amount of \$100,000 Cdn. at prime, which is restricted as security for the derivative financial instruments (Note 14). At September 30, 2008 \$nil (2007 - \$nil) of the line of credit has been restricted as security.

In addition, the Credit Union has authority to borrow up to \$4,802,000 from Central 1. At September 30, 2008 \$nil (2007 - \$nil) borrowings are outstanding.

**Lines of credit to members**

As at September 30, 2008 the total approved lines of credit to members was approximately \$99,577,000 (2007 - \$88,500,000) of which approximately \$64,386,000 (2007 - \$54,300,000) has been disbursed.

**Lease commitments**

The Credit Union has future minimum annual payments required under operating leases as follows:

2009	\$	60
2010 and beyond		-

**Service agreements**

The minimum annual payments under a computer service agreement are \$360,000 per year to December 31, 2013.

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**13. Statement of Cash Flows**

**Net change in non-cash working capital items  
related to operating activities**

	<b>2008</b>	<b>2007</b>
Accrued interest receivable	\$ (49)	\$ 341
Accounts receivable	25	41
Income taxes receivable/payable	(63)	(134)
Prepaid expenses and other assets	(66)	99
Accounts payable and accrued liabilities	108	(142)
	\$ (45)	\$ 205

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**14. Derivative Financial Instruments**

The Credit Union has sold Index-Linked Term Deposits to its members. These are either 3 or 5 year deposits that pay the members interest based on the performance of the TSX 60 index. The Credit Union has entered into hedge agreements with Central 1 to offset the exposure associated with this product, whereby the Credit Union pays Central 1 a fixed rate of interest on the face value of the Index-Linked Term Deposits. At the end of the terms of the deposits, Central 1 pays the Credit Union an amount equal to the amount that will be paid to the member based on the performance of the TSX 60 index since Central 1 has effectively taken full responsibility for the interest rate risk. At September 30, 2008 the Credit Union has \$3,458,000 (2007- \$2,824,000) in Index-Linked deposits included in members' deposits.

These hedging derivatives are recorded at fair value, but changes in fair value only impact the results of operations to the extent that they do not perfectly offset changes in the fair value of the item being hedged (i.e. "hedge ineffectiveness"). Any hedge ineffectiveness would be recorded in the results of operations. The Credit Union's hedge agreements with Central 1 are such that hedges should very closely match the items that are hedged and, as a result, there is no hedge ineffectiveness.

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**15. Segment Disclosures**

The Credit Union operates in the loans and deposit-taking industry in Ontario and, based on the Credit Union's internal management reporting structure, only has one operating segment. Products and services offered to its members include mortgage loans, personal loans, commercial loans and lines of credit. Management and the Board of Directors regularly review the risks and returns related to each of these products and services and make operating decisions accordingly.

No single member accounts for 10 percent or more of the Credit Union's interest revenue.

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**16. Future Accounting Changes**

The Canadian Institute of Chartered Accountants has announced that all publicly accountable enterprises will adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Credit Union is currently evaluating the implications of the adoption of these new standards.

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**17. Comparative Amounts**

In certain instances the 2007 amounts presented for comparative purposes have been reclassified to conform to the financial statement presentation adopted for the current year.

These reclassifications had no impact on the Credit Union's financial position, results of operations and cash flows.

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