



# ROCHDALE

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## CREDIT UNION

**ROCHDALE CREDIT UNION LIMITED**  
**Financial Statements**  
For the year ended December 31, 2009

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## Auditors' Report

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To the Members of  
ROCHDALE CREDIT UNION LIMITED

We have audited the balance sheet of ROCHDALE CREDIT UNION LIMITED as at December 31, 2009 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 December 31, 2009 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Woodstock, Ontario  
February 8, 2010

**ROCHDALE CREDIT UNION LIMITED**  
**Balance Sheet**

**December 31** **2009** **2008**

**Assets**

Cash and short-term deposits (Note 2)	<b>\$ 5,089,413</b>	\$ 1,709,696
Investments (Note 3)	<b>7,170,090</b>	9,510,202
Loans to members (Note 4)	<b>59,726,925</b>	57,196,695
Capital assets (Note 5)	<b>1,782,645</b>	1,871,408
Pension plan (Note 13)	<b>601,609</b>	554,104
Other assets (Note 6)	<b>1,250,724</b>	996,432
	<b>\$ 75,621,406</b>	<b>\$ 71,838,537</b>

**Liabilities and Undivided Earnings**

**Liabilities**

Members' deposits (Note 7)	<b>\$ 64,678,140</b>	\$ 65,244,239
Other liabilities (Note 8)	<b>1,008,051</b>	724,746
Loans payable (Note 9)	<b>5,000,000</b>	1,200,000
Members' shares (Note 11)	<b>1,809,376</b>	1,788,162
	<b>72,495,567</b>	68,957,147

**Members' Equity**

Undivided earnings	<b>3,065,955</b>	2,881,390
Accumulated other comprehensive income	<b>59,884</b>	-
	<b>\$ 75,621,406</b>	<b>\$ 71,838,537</b>

On behalf of the Board of Directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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**ROCHDALE CREDIT UNION LIMITED**  
**Statement of Undivided Earnings**

**For the year ended December 31** **2009** **2008**

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**Undivided Earnings**

Balance, beginning of year	<b>\$ 2,881,390</b>	\$ 2,730,842
Add: Net income for the year	<u><b>184,565</b></u>	<u>150,548</u>
Balance, end of year	<b>\$ 3,065,955</b>	<b>\$ 2,881,390</b>

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The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

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**ROCHDALE CREDIT UNION LIMITED**  
**Statement of Comprehensive Income**

<b>For the year ended December 31</b>	<b>2009</b>	<b>2008</b>
<b>Net income for the year</b>	<b>\$ 184,565</b>	<b>\$ 150,548</b>
<b>Other comprehensive income</b>		
Change in unrealized gain on available-for-sale financial assets ABCP - LP	71,717	-
Income tax effect	<u>(11,833)</u>	-
	<u>59,884</u>	-
<b>Comprehensive income</b>	<b>\$ 244,449</b>	<b>\$ 150,548</b>

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**Statement of Accumulated Other Comprehensive Income**

<b>For the year ended December 31</b>	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ -	\$ -
Other comprehensive income	<u>59,884</u>	-
Balance, end of year	<b>\$ 59,884</b>	<b>\$ -</b>

## ROCHDALE CREDIT UNION LIMITED

### Statement of Operations

For the year ended December 31	2009	2008
<b>Operating revenue</b>		
Interest on loans to members (Note 4)	\$ 3,261,084	\$ 3,502,498
Investment income	263,356	339,132
Other income	763,602	831,216
	<u>4,288,042</u>	<u>4,672,846</u>
<b>Interest expense</b>		
Interest on members' deposits (Note 7)	1,135,164	1,299,397
Interest on borrowings	39,711	187,564
	<u>1,174,875</u>	<u>1,486,961</u>
<b>Financial margin</b>	<u>3,113,167</u>	<u>3,185,885</u>
<b>Operating expenses</b>		
Personnel	1,314,248	1,223,423
Occupancy	237,698	239,348
Insurance	86,583	84,152
Data processing	203,230	209,526
Bad debts (Note 4)	239,919	156,000
General and administrative	711,860	754,280
Pension costs	55,272	139,232
	<u>2,848,810</u>	<u>2,805,961</u>
<b>Income before income taxes and distributions to members</b>	<u>264,357</u>	<u>379,924</u>
<b>Other expenses</b>		
Write down of investments (Note 3)	-	146,367
	<u>264,357</u>	<u>233,557</u>
<b>Income taxes</b>		
Current	42,866	15,179
Future	4,363	20,230
	<u>47,229</u>	<u>35,409</u>
<b>Income available for distribution to members</b>	<u>217,128</u>	<u>198,148</u>
Dividend on investment shares	34,974	44,221
Dividend on ownership shares	4,024	9,999
	<u>38,998</u>	<u>54,220</u>
Less related income taxes	(6,435)	(6,620)
	<u>32,563</u>	<u>47,600</u>
<b>Net income for the year</b>	<u>\$ 184,565</u>	<u>\$ 150,548</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

## ROCHDALE CREDIT UNION LIMITED

### Statement of Cash Flows

For the year ended December 31	2009	2008
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 184,565	\$ 150,548
Adjustments for:		
Amortization of capital assets	148,934	164,001
Increase in pension plan	(47,505)	(172,319)
Investment shares dividend	34,757	44,221
Future income taxes	4,363	20,230
Write down of investment shares	-	22,537
Gain on sale of mortgages	(175,753)	(217,138)
Write down of investment	-	146,367
	<u>149,361</u>	<u>158,447</u>
Changes in other assets and liabilities	<u>84,532</u>	<u>(324,520)</u>
	<u>233,893</u>	<u>(166,073)</u>
<b>Cash flows from member activities - net</b>		
Increase in loans to members (net of loans written off and recoveries)	(2,354,477)	(2,852,507)
(Decrease) increase in members' deposits	(566,099)	6,607,379
(Decrease) increase in ownership shares	(13,543)	7,685
	<u>(2,934,119)</u>	<u>3,762,557</u>
<b>Cash flows from investing activities</b>		
Decrease (increase) in investments	2,340,112	(392,010)
Purchase of capital assets	(60,469)	(159,349)
Proceeds on disposal of capital assets	300	-
	<u>2,279,943</u>	<u>(551,359)</u>
<b>Cash flows from financing activities</b>		
Advance (payments) on CUCO operating loan	<u>3,800,000</u>	<u>(3,300,000)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>3,379,717</b>	<b>(254,875)</b>
<b>Cash and cash equivalents, beginning of year</b>	<u><b>1,709,696</b></u>	<u><b>1,964,571</b></u>
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 5,089,413</b></u>	<u><b>\$ 1,709,696</b></u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

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## ROCHDALE CREDIT UNION LIMITED

### Summary of Significant Accounting Policies

**December 31, 2009**

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**Nature of Business**

Rochdale Credit Union Limited ("Rochdale") is incorporated under the Credit Unions and Caisses Populaires Act (Ontario), (the "Act") and is a member of the Deposit Insurance Corporation of Ontario ("DICO") and of Central 1 Credit Union (Central 1).

**Revenue Recognition**

Interest income and expense is recognized in the Statement of Operations for all interest bearing financial instruments classified as held to maturity, available for sale, loans and receivables and other financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payment or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. The application of this method has the effect of recognizing income and expense on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest, Rochdale estimates cash flows (using projections based on its experience of owners' behaviour) considering all contractual terms of the financial instruments but excluding future credit losses. Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible or practical to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated using the payments or receipts specified in the contract, and the full contractual term.

Unless included in the effective interest calculation, fees are recognized on an accrual basis as the service is provided and reported on the Statement of Operations as "Other income".

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## ROCHDALE CREDIT UNION LIMITED

### Summary of Significant Accounting Policies

**December 31, 2009**

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**Allowance for Impaired Loans** The allowance for impaired losses represents specific and general provisions established as a result of reviews of individual loans and groups of loans. A loan is considered impaired when any of the following conditions exists: payment is past due by 90 days and the loan is not fully secured, payment is past due by 180 days regardless of security, or there is reasonable doubt of being able to fully collect principal and interest on the loan.

Specific allowances are established for impaired loans by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. In such cases, an allowance is established to write down the loan to its estimated realizable amount. The estimated realizable amount is determined by reducing the carrying amount of the loan to the fair value of any collateral, net of expected costs or its observable market price.

General allowances represent the best estimate of probable losses within the loan portfolio that have not been specifically identified as impaired.

Rochdale ceases to accrue interest on an impaired loan.

**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 as additional information becomes available in the future.

**Capital Assets** Capital assets are carried at cost less accumulated amortization. Assets are generally amortized on the following basis:

Buildings - Brick	2.5% declining balance
Buildings - Brick veneer	5% declining balance
Furniture and equipment	20% declining balance
Electronic equipment	3 and 10 year straight-line
Vehicle	3 year straight-line

Amortization in the first year is prorated based on the number of months the asset is in service.

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## ROCHDALE CREDIT UNION LIMITED

### Summary of Significant Accounting Policies

**December 31, 2009**

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**Income Taxes**

Rochdale uses the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants.

Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets, that are likely to be realized, and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

Future tax amounts are measured using the enacted rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

**Dividend Accrual**

Dividends on shares are recorded as a distribution of net income in the year to which they pertain, not in the year they are paid.

**Foreign Exchange**

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Foreign exchange gains or losses arising from the translation of monetary items are included in income for the year.

**Other Comprehensive Income**

CICA Handbook Section 1530 describes Comprehensive Income, which is comprised of Net Income and Other Comprehensive Income ("OCI"). OCI represents the change in Members' equity during the year that is attributable to unrealized gains and losses on financial assets classified as available for sale.

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# ROCHDALE CREDIT UNION LIMITED

## Summary of Significant Accounting Policies

December 31, 2009

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### Financial Instruments

Rochdale recognizes and measures financial assets and financial liabilities on the Balance Sheet when they become a party to the contractual provisions of a financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, available for sale or other financial liabilities.

#### Held for Trading

Financial instruments are classified under this category if they are:

- (i) acquired principally for the purpose of selling or repurchasing in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- (iii) a derivative, except for a derivative that is a financial guarantee contract or a designated effective hedging instrument; or
- (iv) designated at fair value using the fair value option ("FVO")

Financial instruments cannot be transferred into or out of the Held for Trading category after inception, except in rare circumstances. For designation at fair value using the FVO option, reliable fair values must be readily available.

These instruments are recognized initially at fair value and transaction costs are taken directly to the statement of operations. They are subsequently measured at fair value and gains and losses arising from changes in fair value of these instruments are recorded in the statement of operations.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments classified as held for trading on initial recognition.

These instruments are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost using the effective interest method less any provision for impairment.

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# ROCHDALE CREDIT UNION LIMITED

## Summary of Significant Accounting Policies

December 31, 2009

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### Financial Instruments

#### Available for Sale

Available for sale assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently held at fair value with gains and losses arising from changes in fair value being recognized in other comprehensive income. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the statement of operations. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost less any provision for impairment.

#### Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities and are measured at amortized cost using the effective interest method.

#### Fair Values

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the credit union has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

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## **ROCHDALE CREDIT UNION LIMITED**

### **Summary of Significant Accounting Policies**

**December 31, 2009**

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#### **Employee Benefit Plans**

Rochdale accrues its obligations under the employee pension plans and sick leave benefit plan and the related costs, net of plan assets and has adopted the following policies:

- the cost of pensions earned by employees are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- for the purpose of calculating the expected return on plan assets, those assets are valued at fair value; and
- the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 14 years.

#### **Transfers of Receivables**

Rochdale occasionally sells loans such as personal mortgages to other financial institutions or trusts to manage its liquidity. In these instances the credit risk is transferred to the purchasing institution, while Rochdale continues to administer the receivables. These transactions are accounted for as sales, and the loans are removed from the Balance Sheet when control of the assets has been transferred and Rochdale has received consideration in exchange.

#### **Loan Securitization**

Rochdale occasionally securitizes loans by selling them to special purpose entities or trusts that issue securities to investors. These transactions are accounted for as sales, and the loans are removed from the Balance Sheet when control over the assets has been surrendered and Rochdale has received consideration in exchange.

Gains or losses on securitization transactions are recognized immediately in the Statement of Operations as Other Income. The amount of these gains or losses is based on the present value of expected future cash flows using management's best estimates of key assumptions, including prepayment rates, excess spread, discount rates and other factors influencing the fair value of the loans. Rochdale also has a contractual obligation to service the loans on behalf of the transferee and, as a result, a servicing liability is recognized on the date of transfer and amortized over the term of the transferred loans.

As part of the securitization, certain interests are retained, including the right to receive the future excess interest spread and the mortgaging servicing liability. The net of the future excess spread and mortgaging servicing liability is reflected on the Balance Sheet as an Other Asset.

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## **ROCHDALE CREDIT UNION LIMITED**

### **Summary of Significant Accounting Policies**

**December 31, 2009**

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#### **Derivative Financial Instruments**

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts.

Rochdale, in accordance with its risk management strategies, enters into various derivative contracts to protect itself against the risk of fluctuations in interest rates as well as to meet its customers' demand and to earn trading income.

Rochdale manages interest rate risk through interest rate swaps. These derivatives are carried at fair market value and are reported as assets where they have a positive value and as liabilities where they have a negative value.

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 1. Financial Instruments

Section 3855 – Financial Instruments – Recognition and Measurement – requires the credit union to categorize financial instruments by class. See Financial Instruments in Summary of Significant Accounting Policies for definition of financial instrument classes. The classification of financial instruments as of December 31, 2009 is as stated below.

Classes of Financial Instruments	Loans & Receivables	Held for Trading	Available for Sale	Financial Liability
Cash and short-term deposits	\$ -	\$ 5,089,413	\$ -	\$ -
Investments:				
Liquidity reserve deposits	5,149,981	-	-	-
CUCO membership shares	-	-	101,355	-
Central 1 shares	-	-	438,652	-
Concentra shares	-	-	13,729	-
Concentra mortgages	-	1,094,973	-	-
ABCP - Limited Partnership	-	-	324,298	-
Accrued interest receivable	47,102	-	-	-
Member loans	59,726,921	-	-	-
Other receivables				
Derivatives relating to interest rate swap agreements	-	531,603	-	-
Index linked prepaid premium	402,754	-	-	-
Members' deposits	-	-	-	64,678,140
Other liabilities	-	-	-	1,008,051
Loans payable	-	-	-	5,000,000
Members' shares	-	-	-	1,809,376

#### 2. Cash and Short-term Deposits

Cash and short-term deposits consist of cash on hand, short term deposits and current account balances. Current account balances have an interest yield of 1.10% at December 31, 2009 (2008 - 0.25%). Bank balance includes \$228,887 denominated in U.S. dollars. As of December 31, 2009, Rochdale holds nil (\$60,000 in 2008) in U.S. short term deposits.

The Credit Unions and Caisse Populaires Act, 1994 requires that Rochdale maintain adequate liquidity. Rochdale must maintain a minimum of 8% of its borrowings and member deposits in certain classes of short-term or liquid assets as defined in the regulations. The cash and short-term deposits (along with certain other assets) of Rochdale meet the definitions of the asset classes that qualify for liquidity purposes. Rochdale complies with requirements regarding adequate liquidity at December 31, 2009.

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 3. Investments

	2009		2008	
	\$	Effective Rate	\$	Effective Rate
Central 1 liquidity reserve deposits	\$ 5,149,981	1.35 %	\$ 5,181,898	3.13 %
Central 1 shares	438,652	- %	583,299	- %
CUCO shares	101,355	- %	-	- %
Concentra shares	13,729	- %	13,729	- %
Concentra mortgages	1,094,973	5.06 %	3,323,449	5.15 %
ABCP Limited Partnership (Note 20)	324,298	- %	328,971	- %
	<b>7,122,988</b>	<b>1.83 %</b>	9,431,346	3.52 %
Accrued interest receivable	47,102		78,856	
	<b>\$ 7,170,090</b>		<b>\$ 9,510,202</b>	

The fair market value of the liquidity reserve deposits is \$5,152,720 (2008 - \$5,240,806).

The liquidity reserve deposit with Central 1 must be maintained at 7% of Rochdale's total assets adjusted each quarter of the year. The deposit can be withdrawn only if there is a sufficient reduction in Rochdale's total assets or upon withdrawal of membership from Central 1. The investment consists of 6 fixed rate deposits due within two years. At maturity, these deposits are re-invested at market rates for various terms up to three years.

Short term investments held at Central 1 do not meet the CICA handbook definition of debt securities. The terms and conditions of these instruments are consistent with a lending contract whereby cash flows are advanced to the Central 1 with a commitment to repay Rochdale at a specified rate of interest according to preset maturity dates.

Prior to the sale to Central 1, members of Credit Union Central of Ontario (CUCO) were required to hold an investment equal to 0.80% of its total assets of CUCO shares to remain in good standing. On the date of the acquisition, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. On completion of this transaction, the credit union received 178,452 Class A shares, 260,200 Class E shares and retained 123,892 CUCO shares. The value of the CUCO shares was impaired and was written down by \$22,537 in 2008.

Central 1 and CUCO shares are not actively traded and have no established market value. As such, these shares are carried at cost less other than temporary impairment. Dividends on these shares are at the discretion of the Board of Directors of Central 1. Dividends of \$29,218 on Class A and Class E were received in 2009 and no dividends were received on CUCO shares in 2009 (2008 - \$ nil).

The fair value of the shares in Concentra is not readily determinable, but management believes that there is no other than temporary impairment in this investment.

Concentra mortgages bear annual rates ranging from 4.35% to 5.783% and are repayable to Rochdale in payments of principal and interest monthly. The mortgages mature between January 2010 and November 2014.

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 4. Loans to Members

	2009			
	Principal Balance	Accrued Interest	Allowance for Credit Losses	Net Loan Balance
Residential mortgages	\$ 33,533,635	\$ 60,610	\$ -	\$ 33,594,245
Personal	17,075,975	16,712	(203,589)	16,889,098
Commercial	9,272,854	12,360	(41,632)	9,243,582
<b>Total</b>	<b>\$ 59,882,464</b>	<b>\$ 89,682</b>	<b>\$ (245,221)</b>	<b>\$ 59,726,925</b>

	2008			
	Principal Balance	Accrued Interest	Allowance for Credit Losses	Net Loan Balance
Residential mortgages	\$ 30,546,715	\$ 58,873	\$ -	\$ 30,605,588
Personal	18,097,868	20,352	(204,816)	17,913,404
Commercial	8,665,424	12,279	-	8,677,703
<b>Total</b>	<b>\$ 57,310,007</b>	<b>\$ 91,504</b>	<b>\$ (204,816)</b>	<b>\$ 57,196,695</b>

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

Variable rate loans are based on a "credit union prime rate plus" formula with the rate above prime being determined by the size of the loan, the type of collateral offered, the purpose of the loan and the owner's credit worthiness. The Credit Union's prime rate at December 31, 2009 is 3.50%.

Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of collateral offered, the purpose of the loan, the owner's credit worthiness and the loan term.

Residential mortgages are secured by residential property and generally are repayable in monthly blended payments of principal and interest. Residential mortgage loans include \$12,214,776 of loans insured by the Canada Mortgage and Housing Insurance Corporation (\$12,263,231 in 2008).

Personal loans consist of term loans and lines of credit and, as such, have various repayment terms. Some of the personal loans are secured by wage assignment, residential and personal property or investments, and others are secured by wage assignment only.

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

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 4. Loans to Members (continued)

From time to time member loans may be renegotiated, either as part of an ongoing member relationship or in response to a change in the circumstances of the member. Renegotiations and debt restructuring are in the normal course of the credit union's business. It is possible that a renegotiation could result in an extension of the due date of a repayment, however, the new terms and new interest rates would reflect the current market rates and economic environment. These are treated as new agreements and the loan would not be considered delinquent or impaired.

The following schedule shows the Credit Union's maturity and average yield of the loan portfolio. Amounts with floating rates, or due on demand, are classified as variable, regardless of maturity.

	2009		2008	
	Total Loans	Effective Interest Rate	Total Loans	Effective Interest Rate
Variable	\$ 24,628,123	5.10 %	\$ 26,225,562	5.09 %
Less than 1 year	6,103,353	4.96	5,051,105	6.01
1 to 2 years	3,928,159	5.87	4,491,805	5.56
2 to 3 years	4,780,264	6.05	5,830,331	5.89
3 to 4 years	4,686,169	6.37	8,557,145	5.98
4 to 5 years	15,756,396	5.02	7,148,696	6.39
Over 5 years	-	-	5,363	5.75
<b>Total</b>	<b>\$ 59,882,464</b>	<b>5.29 %</b>	<b>\$ 57,310,007</b>	<b>5.58 %</b>

At December 31, the balances of loans in arrears within the portfolio were as follows:

	2009			
	Residential Mortgages	Personal Loans	Commercial Loans	Total
Current	\$ 31,518,949	\$ 16,544,629	\$ 9,272,854	\$ 57,336,432
Less than 30 days in arrears	987,009	215,624	-	1,202,633
30 - 89 days in arrears	329,421	113,147	-	442,568
90 - 179 days in arrears	472,388	118,249	-	590,637
180 - 365 days in arrears	91,098	52,333	-	143,431
More than 365 days in arrears	134,770	31,993	-	166,763
<b>Total</b>	<b>\$ 33,533,635</b>	<b>\$ 17,075,975</b>	<b>\$ 9,272,854</b>	<b>\$ 59,882,464</b>

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 4. Loans to Members (continued)

	2008			
	Residential Mortgages	Personal Loans	Commercial Loans	Total
Current	\$ 27,527,724	\$ 17,352,877	\$ 8,665,424	\$ 53,546,025
Less than 30 days in arrears	2,073,646	423,813	-	2,497,459
30 - 89 days in arrears	600,971	170,524	-	771,495
89 - 179 days in arrears	134,580	106,506	-	241,086
180 - 365 days in arrears	209,794	37,114	-	246,908
More than 365 days in arrears	-	7,034	-	7,034
<b>Total</b>	<b>\$ 30,546,715</b>	<b>\$ 18,097,868</b>	<b>\$ 8,665,424</b>	<b>\$ 57,310,007</b>

#### Allowance for impaired loans

The allowance for impaired loans reflects potential losses on personal loans and the activity in the account has been as follows:

<b>2009</b>	<b>Residential Mortgages</b>	<b>Personal Loans</b>	<b>Commercial Loans</b>	<b>Total</b>
Balance, beginning of year	\$ -	204,816	\$ -	204,816
Loan recoveries during the year	-	16,011	-	16,011
Loans written off during the year	-	(215,525)	-	(215,525)
Provision of credit losses	-	198,287	41,632	239,919
<b>Balance, end of year</b>	<b>\$ -</b>	<b>203,589</b>	<b>\$ 41,632</b>	<b>245,221</b>

2008	Residential Mortgages	Personal Loans	Commercial Loans	Total
Balance, beginning of year	\$ -	\$ 199,906	\$ -	\$ 199,906
Loan recoveries during the year	-	16,500	-	16,500
Loans written off during the year	-	(167,590)	-	(167,590)
Provision of credit losses	-	156,000	-	156,000
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ 204,816</b>	<b>\$ -</b>	<b>\$ 204,816</b>

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 4. Loans to Members (continued)

The allowance for impaired loans consists of an allowance for specific impaired loans and a provision for potential losses on other loans. The specific impaired loans are identified in accordance with the directives from DICO and have a gross principal balance of \$1,020,515 (2008 - \$561,492) which excludes the net realizable value of security held of \$804,212 (2008 - \$478,150) on those impaired loans.

##### Interest income

	2009	2008
Residential mortgages	\$ 1,816,575	\$ 1,787,008
Personal	991,646	1,233,296
Commercial	452,863	482,194
	\$ 3,261,084	\$ 3,502,498

#### 5. Capital Assets

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 259,664	\$ -	\$ 259,664	\$ -
Buildings	2,091,861	855,343	2,082,862	812,715
Furniture and equipment	1,506,205	1,346,187	1,502,840	1,310,017
Electronic equipment	759,621	633,176	711,814	563,040
Vehicle	13,742	13,742	13,742	13,742
	\$ 4,631,093	\$ 2,848,448	\$ 4,570,922	\$ 2,699,514
Net book value		\$ 1,782,645		\$ 1,871,408
Current amortization		\$ 148,934		\$ 164,001

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 6. Other Assets

	<b>2009</b>	2008
Prepaid expenses	<b>\$ 65,288</b>	\$ 20,249
Index linked prepaid premium	<b>402,754</b>	368,503
Canada Mortgage Bond revenue receivable (Note 21)	<b>251,079</b>	235,502
Income taxes recoverable	-	42,130
Interest rate swap agreement	<b>531,603</b>	330,048
	<b>\$ 1,250,724</b>	\$ 996,432

Rochdale has outstanding \$5,229,876 (2008 - \$5,161,673) in Index-Linked Term Deposits, RRSPs and Tax free Savings Accounts (TFSA) to its members. The Index-Linked Term Deposits, RRSPs and TFSA's are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivatives associated with these deposits are presented in other liabilities and have a fair value of \$531,603. In compliance with CICA 3862, the company has categorized the derivatives recorded at fair value into a three level hierarchy. The derivatives are categorized as level 2 whereby fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Rochdale has entered into interest rate swap agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest annually for the term of each Index-Linked Term Deposit, RRSP and TFSA on the face value of the deposits sold. At the end of the term, Rochdale receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices.

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 7. Members' Deposits

Deposits	2009	2008
Chequing	\$ 7,680,562	\$ 8,305,488
Demand	17,996,947	20,865,598
Term	20,424,774	19,473,793
Registered savings plans	14,287,701	13,396,422
Registered income funds	2,992,532	2,740,305
Tax free savings accounts	911,556	-
	<b>64,294,072</b>	<b>64,781,606</b>
Accrued interest payable	<b>384,068</b>	<b>462,633</b>
	<b>\$ 64,678,140</b>	<b>\$ 65,244,239</b>

Members' deposits are either redeemable on demand or have a fixed date of maturity up to five years. Interest rates are set based upon the type, size and term to maturity of the deposit.

The term to maturity and effective interest rates of Rochdale's members' deposit portfolio are as follows:

	2009		2008	
	Total Deposits	Effective Interest Rate	Total Deposits	Effective Interest Rate
Variable	\$ 27,652,396	0.28 %	\$ 30,728,220	0.63 %
Less than 1 year	15,423,583	1.89	21,575,572	3.10
1 to 2 years	14,723,970	2.23	5,236,961	3.43
2 to 3 years	2,256,648	2.92	3,372,375	3.79
3 to 4 years	2,445,190	2.71	1,548,728	4.09
4 to 5 years	1,792,285	0.73	2,319,750	3.98
Total	<b>\$ 64,294,072</b>	<b>1.19 %</b>	<b>\$ 64,781,606</b>	<b>1.75 %</b>

Interest expense	2009	2008
Chequing	\$ 17,320	\$ 45,767
Demand	101,955	131,065
Term	522,960	599,240
Registered savings plans	244,458	279,130
Registered income funds	78,807	103,770
Index linked deposits	156,142	140,425
Tax free savings accounts	13,522	-
	<b>\$ 1,135,164</b>	<b>\$ 1,299,397</b>

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 8. Other Liabilities

	2009	2008
Accounts payable	\$ 324,552	\$ 273,481
Income taxes payable - current	20,879	-
Future income taxes	93,712	75,482
Interest rate swap agreement (Note 6)	531,603	330,048
Deferred Canada Mortgage Bond revenue (Note 21)	37,305	45,735
	\$ 1,008,051	\$ 724,746

#### 9. Loans Payable

Rochdale has authorized lines of credit with Central 1 for \$500,000 on the Canadian account and \$100,000 on the U.S. account. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of Rochdale. At December 31, 2009, the line of credit facilities were not in use.

As at December 31, 2009, Rochdale has access to term loan credit facilities of \$6,500,000 (2008 - \$6,500,000) and extraordinary term loans of \$2,600,000 (2008 - \$2,650,000) at Central 1. At year end, these facilities were being utilized as follows:

	2009		2008	
	Amount Owing	Rate	Amount Owing	Rate
Term loans	\$ 5,000,000	0.80%	\$ 1,200,000	2.32%

The fair value of term loans as at December 31, 2009 was \$5,015,761 (\$1,201,489 in 2008).

#### 10. Income Taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial Statutory income tax rates to income before income taxes. This difference results from the following items:

	2009	2008
Net income before income taxes	\$ 225,359	\$ 179,337
Income taxes	\$ 40,794	\$ 28,789
Effective tax rate	18.10 %	16.05 %
Components of the tax rate		
Combined federal and provincial tax rate	33.50 %	33.50 %
Deduction for credit unions	17.00 %	17.00 %
Net tax rate for credit unions	16.50 %	16.50 %
Non-deductible expenses	(0.45)%	(0.02)%
Timing differences	2.05 %	(0.43)%
Effective tax rate	18.10 %	16.05 %

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### 10. Income Taxes (continued)

At December 31, 2009, Rochdale has realized capital losses of approximately \$630,049 (2008-\$630,049) from prior years, which can be applied against future capital gains without expiration. The potential future tax reductions which could result from these losses will not be recognized until Rochdale realizes capital gains.

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#### 11. Members' Shares

	<u>2009</u>	<u>2008</u>
Membership shares	\$ 621,597	\$ 635,140
Investment shares	1,152,810	1,113,816
Accrued dividend on investment shares	<u>34,969</u>	<u>39,206</u>
	<u>\$ 1,809,376</u>	<u>\$ 1,788,162</u>

#### Terms and Conditions of Members' Shares

Funds invested by members in investment shares are not insured by DICO. The withdrawal of member shares are subject to certain restrictions as provided by Rochdale's bylaws and by Rochdale maintaining adequate regulatory capital (see Note 12), as is the payment of any dividends on these shares. The fair value of these shares is not determinable.

As a condition of membership, each member is required to hold \$175 in membership shares. Membership shares have a par value of \$5 per share and members age eighteen and over are required to have a minimum of thirty-five shares. These shares are redeemable at par only when the member withdraws from membership in the Credit Union. At December 31, 2009, Rochdale had 4,295 members (2008 - 4,283). These members held a total of 124,319 (2008 - 127,028) ownership shares. Each member age eighteen and over is entitled to one vote.

Investment shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. These shares are redeemable at the discretion of the Board of Directors to a maximum of 10% of the shares outstanding at the previous year end. The Credit Union has the option to redeem these shares in whole or in part or on a pro-rata basis any time after five years from the date of issuance.

The Board of Directors proposes to declare a 3.03% dividend on investment shares, totaling approximately \$34,969 to investment shareholders of record on the date of declaration. The dividend is payable in investment shares and is recorded as an expense in the statement of operations.

The Board of Directors proposes to declare a 0.75% dividend on membership shares, totaling approximately \$4,666, to members of record on the date of declaration. The dividend is payable in cash and is recorded as an expense in the statement of operations.

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 12. Regulatory Capital

Rochdale's capital management plan is designed to establish a strong base for future growth, the payment of dividends and profit sharing, as well as provide a cushion in the event of market volatility. The Act requires Rochdale to maintain adequate regulatory capital which consists of members' shares and undivided earnings. Adequate capital is defined as 4% (4.25% in 2008) of total assets and 8% of risk weighted assets. At December 31, 2009, Rochdale is in compliance with the Act and regulations.

	2009	2008
Members' shares	\$ 1,809,376	\$ 1,788,162
Undivided earnings	3,065,955	2,881,390
Total regulatory capital	\$ 4,875,331	\$ 4,669,552
% of total assets	6.4 %	6.5 %
% of total risk weighted assets	13.8 %	13.5 %

#### 13. Employee Future Benefits

Rochdale maintains a defined benefit pension plan, defined contribution plan and a sick leave benefit plan providing pension and sick leave benefits to eligible employees. The Credit Union Employees' Pension plan is administered by CUMIS Life Insurance Company. Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Credit Union's employment or upon retirement.

Actuarial valuations of the defined benefit pension plan are made based on market-rated discount rates. The following table presents information related to Rochdale's defined benefit plans, including the amount recorded on the balance sheet, and the components of net periodic benefit cost:

	2009		2008	
	Pension Plan	Sick Leave Benefits	Pension Plan	Sick Leave Benefits
<b>Accrued benefit obligation</b>				
Balance at beginning of year	\$ 1,350,000	\$ 49,871	\$ 1,262,800	\$ 52,621
Current service cost	-	5,688	-	6,458
Indexing expense	(1,668)	-	(3,641)	-
Interest cost	85,568	-	69,410	-
Benefits paid	(162,971)	(14,354)	-	(9,208)
Actuarial loss	4,071	-	21,431	-
Balance at end of year	\$ 1,275,000	\$ 41,205	\$ 1,350,000	\$ 49,871

## ROCHDALE CREDIT UNION LIMITED Notes to Financial Statements

**December 31, 2009**

### 13. Employee Future Benefits (continued)

	2009		2008	
	Pension Plan	Sick Leave Benefits	Pension Plan	Sick Leave Benefits
<b>Plan assets</b>				
Fair value at beginning of year	\$ 2,142,460	\$ -	\$ 1,801,638	\$ -
Employer contributions	47,952	-	254,449	-
Benefits paid	(162,971)	-	-	-
Indexing expense	(1,668)	-	(3,641)	-
Actual return on plan assets	87,767	-	90,014	-
Fair value at end of year	\$ 2,113,540	\$ -	\$ 2,142,460	\$ -
Funded status - plan (deficit)	\$ 838,540	\$ (41,205)	\$ 792,460	\$ (49,871)
Unamortized net actuarial losses	(236,931)	-	(238,356)	-
<b>Accrued benefit asset (liability)</b>	<b>\$ 601,609</b>	<b>\$ (41,205)</b>	<b>\$ 554,104</b>	<b>\$ (49,871)</b>

The assets of the pension plan are invested in the CUMIS Retirement Security Fund.

The Credit Union's pension plan and sick leave benefit expenses were as follows:

Current service cost	\$ -	\$ 5,688	\$ -	\$ 6,458
Past service cost	-	-	107,500	-
Interest cost	85,568	-	69,410	-
Expected return on plan assets	(83,365)	-	(96,352)	-
Amortization of net actuarial (gain) losses	(1,756)	-	1,572	-
<b>Net benefit plan expense</b>	<b>\$ 447</b>	<b>\$ 5,688</b>	<b>\$ 82,130</b>	<b>\$ 6,458</b>

The assumptions used in the measurement of the benefit obligations are shown in the following table:

	2009	2008
Discount rate	6.75 %	5.00 %
Expected long-term rate of return of plan assets	4.00 %	5.00 %
Rate of compensation increases	4.00 %	4.00 %

#### Defined Contribution Plan

Beginning on January 1, 2004, Rochdale started a defined contribution pension plan for its employees. There will be no more current service cost for the defined benefit plan. The amount contributed to the defined contribution plan for 2009 was \$45,581 (2008 - \$47,738) for current service. These payments are included as an expenditure on the statement of operations.

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### 14. Commitments

(a) Member loans

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

Unused lines of credit	\$ 9,885,365
Letters of credit	\$ 102,250

When the above loans are advanced, they are subject to the same terms and conditions as loans described in Note 4.

(b) Lease commitments

Rochdale has contractual obligations in respect of leased equipment amounting to \$35,412. Future minimum commitments under long-term leases for the next five years are as follows:

2010	\$ 11,728
2011	6,767
2012	6,767
2013	6,767
2014	3,383
	<hr/>
	\$ 35,412

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#### 15. Restricted Parties

(a) Loans

Restricted parties include all directors, officers and staff, as well as their spouses and immediate dependent family members. Loans to these restricted parties are advanced under the same terms and conditions as loans to other members. At December 31, 2009, there were 33 (2008 - 40) loans and lines of credit outstanding to restricted parties totaling \$1,696,590 (2008 - \$1,296,945). Unused lines of credit to restricted parties amount to \$190,717 (2008 - \$102,797). None of the loans to restricted parties were impaired at December 31, 2009.

(b) Director remuneration

The directors were paid \$7,850 in remuneration in 2009, \$8,075 in 2008.

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### **16. Segment Disclosures**

Rochdale operates in the loans and deposit-taking industry in Oxford County and based on the credit union's internal management reporting structure, only has one operating segment. Products and services offered to members include residential mortgages, personal loans and commercial loans.

No single member accounts for 10 percent or more of Rochdale's interest revenue.

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#### **17. Additional Information**

##### **Deposit Insurance**

The annual premium paid to the Deposit Insurance Corporation of Ontario for insuring member deposits during the year ended December 31, 2009 was \$52,710 (2008 - \$50,186). The premium rates are based on relative risk to the insurance fund as measured by an overall composite risk score encompassing financial and other risk based factors.

##### **Credit Union Central Fees**

The total fees paid to Credit Union Central of Ontario and Central 1 amounted to \$130,641 (2008 - \$125,207). These fees were primarily in respect to membership dues, banking and clearing and other services.

##### **Statement of Cash Flow Disclosures**

The change in cash generated by operating activities includes the following amounts:

- (a) Income tax received in the amount of \$28,612 (\$26,949 paid in 2008).
- (b) Interest received on loans to owners and credit union investments in the amount of \$3,596,724 (\$3,878,264 in 2008).
- (c) Interest paid on owners' deposit accounts in the amount of \$1,213,728 (\$1,344,107 in 2008).
- (d) Dividends paid on owners' capital accounts in the amount of \$38,998 (\$55,631 in 2008).

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 18. Estimated Fair Value of Financial Instruments

Fair values of Rochdale's financial instruments were estimated using the valuation methods and assumptions described below. Since many of Rochdale's financial instruments lack an available trading market, the fair values represent estimates of the current market value of instruments, taking into account changes in market rates that have occurred since their origination. Due to the use of subjective assumptions and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments and are not recorded in the financial statements.

Fair values for items that are short-term in nature are equal to book value. These include cash and cash equivalents, accrued interest receivable, other assets, income taxes receivable, accounts payable and accrued liabilities, and accrued interest payable. Fair values for floating rate financial instruments are equal to book value as the interest rates automatically reprice to market.

Estimated fair values of investments, loans and deposits are summarized as follows:

	<b>2009</b>		
	<b>Book Value</b>	<b>Fair Value</b>	<b>Difference</b>
Investments	\$ 7,122,988	\$ 7,178,679	\$ 55,691
Members' loans	59,882,464	60,595,438	712,974
Members' deposits	64,294,072	63,601,851	692,221
			<b>\$ 1,460,886</b>
Total net difference			<b>\$ 1,460,886</b>
			<b>2008</b>
	<b>Book Value</b>	<b>Fair Value</b>	<b>Difference</b>
Investments	\$ 9,431,346	\$ 9,490,253	\$ 58,907
Members' loans	57,310,007	57,761,211	451,204
Members' deposits	64,781,606	65,518,685	(737,079)
			<b>\$ (226,968)</b>
Total net difference			<b>\$ (226,968)</b>

Estimated fair values are determined as follows:

Investments are valued using quoted market prices where available. Book values are used where no ready market values are available.

Fixed rate loans are valued by discounting the contractual future cash flows at current market rates for loans with similar credit risks.

Fixed rate deposits are valued by discounting the contractual future cash flows using market rates currently being offered for deposits with similar terms.

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### 19. Nature and Extent of Risks Arising from Financial Instruments

##### *a) Liquidity Risk*

Liquidity risk is defined as the risk that the Credit Union will be unable to pay obligations when they fall due, become unable to repay depositors when funds are withdrawn, or become unable to meet commitments to lend money. Rochdale has established Board Policy limits to manage liquidity risk to ensure the credit union has sufficient liquidity to meet obligations. Rochdale manages liquidity through a combination of strategies: including deposit growth, borrowing, and loan sales.

The Credit Union and Caisses Populaires Act, 1994 requires that the Credit Union maintain adequate liquidity in certain classes of short term or liquid assets as defined in the regulations

As of December 31, 2009 the liquidity position of Rochdale is as follows:

Liquidity Requirements	<u>2009</u>	2008
Qualifying liquid assets on hand	<b>\$ 10,312,549</b>	\$ 6,815,776
Total liquidity requirement	<b>5,143,526</b>	<u>5,182,528</u>
Excess of liquidity requirement	<b>\$ 5,169,023</b>	\$ 1,633,248
Liquidity ratio	<b><u>16.04%</u></b>	10.52%

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### **19. Nature and Extent of Risks Arising from Financial Instruments (continued)**

##### *b) Credit Risk*

Credit risk is defined as the risk of financial loss due to a borrower or counterparty failing to meet its obligations in accordance with contractual terms. Rochdale has established Board approved lending policies which guides management's lending practices. Management grants credit through consideration of a member's credit history, character, collateral, and capacity for debt. The financial position of members with loans is periodically reviewed throughout the life of the loan. Debt that appears to be in arrears is designated as impaired and a provision set aside to the extent of any loss that is anticipated (see Note 4).

Rochdale manages credit risk by securing collateral against all types of loans. In the event that a member is unwilling or unable to meet their obligations as a borrower, security is liquidated to repay the obligation to Rochdale. Collateral is taken on each loan funded with regard to the owner's overall credit worthiness including credit history, character, capacity for debt, and type of loan granted. Collateral for member loans is generally secured as follows:

<b>Mortgages</b>	Mortgage loans are secured by real property. Rochdale members generally have equity in the property being mortgaged.
<b>Term Loans</b>	Term loans are generally secured by assets which are equivalent to the approved balance. Term loans can be unsecured. Risk of unsecured term loans are reflected in the rate of the loan.
<b>Instalment Loans</b>	Instalment loans are generally secured by assets which are equivalent to the approved balance of the loan. Instalment loans can be unsecured. Risk of unsecured instalment loans are reflected in the rate of the loan.
<b>Lines of Credit</b>	Lines of credit are generally secured by assets which are equivalent to the approved balance of the facility. Lines of credit can be unsecured. The risk of unsecured lines of credit are reflected in the rate of the facility.

## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

#### 19. Nature and Extent of Risks Arising from Financial Instruments (continued)

##### *c) Market Risk*

Market risk is defined as the risk of loss to the credit union's business objectives that may arise from volatility in market factors such as interest rates, foreign exchange rates, credit spreads, commodity prices and equities. The credit union's exposure to market risk is primarily dependent on the expectation of future interest rate changes and subsequent yield movements.

Traditional financial activities, such as deposit taking and lending, expose the credit union to market risk. The primary market risk for Rochdale is interest rate risk. Rochdale measures and manages interest rate risk using a financial model that measures Earnings at Risk on a monthly basis. The primary objective of this approach is to maximize earnings on a consistent basis while minimizing reductions to net income resulting from changes in future interest rates.

Earnings at risk is calculated by forecasting the net interest margin for the next 12 month period by shocking the existing portfolios with an increase or decrease in interest rates of 100 basis points. The impact of interest rate shocks are measured against the static rate forecast to determine the amount of earnings at risk. Maximum change limits under these interest rate shock scenarios have been set out by the Board of Directors.

The policy limits and projections as of December 31, 2009 are as follows:

Asset/Liability Management Limits	2009		
	Board Policy Limit (bps)	Actual (bps)	Projected Change to Earnings
Interest rate risk shock - plus 100bps	15.0	16.3	\$ 123,000
Interest rate risk shock - minus 100bps	15.0	-	\$ -

bps – basis point – 1 basis point is 1 hundredth of 1%.

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### **20. Asset Backed Commercial Paper Limited Partnership**

As a pre-condition of the sale of the assets of Credit Union Central of Ontario (CUCO) to Credit Union Central of British Columbia (CUCBC), CUCO was required to divest itself of investments in certain non-bank sponsored asset-backed commercial paper (ABCP). A resolution was approved to facilitate the sale, which created a limited partnership (ABCP 2008 Limited Partnership) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the sale, the excluded ABCP with a total par value of \$186,916,000 was acquired by the limited partnership at its estimated fair value of \$133,564,342 including accrued interest, net of expenses, and other assets. As there was no active market in these ABCP investments, the fair values used to determine the acquisition price were provided by a specialized asset management firm engaged by CUCO to provide an independent valuation of the underlying assets. The valuation for each credit union's share of the limited partnership was provided by CUCO before closing and Rochdale recorded their investment in limited partnership units at a fair value of \$489,446.

As an investment company, the limited partnership is required to carry its securities at their fair value. Given that there are no observable prices for these securities, CICA guidelines expect that fair value estimates will be based on reasonable and supportable assumptions that a third-party market participant would use in determining the current fair value of the investment. In compliance with CICA 3862, Rochdale has categorized this financial asset carried at fair value into a three level fair value hierarchy. It is categorized as a level 3 whereby the fair value is based on valuation techniques that require one of more significant unobservable inputs or the use of broker quotes.

During the year, Rochdale received distributions of \$76,391 from the Limited Partnership, which are viewed as a return of the initial capital investment. The market value of the remaining ABCP holdings increased by \$71,717 during the current year and is reflected in other comprehensive income.

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#### **21. Transfer of Loans Receivable**

Rochdale occasionally sells mortgage loans to Concentra Financial as described in the Summary of Significant Accounting Policies. As at December 31, 2009, the aggregate outstanding value of loans transferred was nil (2008 - \$4,478,202). During the year all mortgages previously sold to Concentra were repurchased by the credit union. A premium of \$77,385 was paid on reacquiring these mortgages which is being amortized over the remaining term of the repurchased mortgages.

Transfers of loans receivable activity in the year:

	<u>2009</u>	<u>2008</u>
Proceeds on sales during the year	\$ -	\$ 1,321,767
Cash flow remitted on collections	\$ 4,580,705	\$ 992,184
Servicing fee received	\$ 6,050	\$ 17,035

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

**December 31, 2009**

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#### 22. Loan Securitization

During the year, Rochdale securitized mortgages through the transfer of mortgage loans to the Canada Mortgage Bond (CMB) trust as described in the Summary of Significant Accounting Policies. As at December 31, 2009, the aggregate value of mortgage loans outstanding amounted to \$5,203,609 (2008 - \$2,994,721). The net gain on the sale of mortgages is immediately recognized in the Statement of Operations as "Other income". None of the mortgage loans were delinquent at December 31, 2009. In addition, there were no credit losses incurred on the mortgages transferred into the CMB program. Since these mortgages are sold on a serviced basis, Rochdale has a servicing liability of \$37,305 (2008 - \$18,363) included on its Balance Sheet.

The table below summarizes certain cash flows related to the trust:

	<u>2009</u>	<u>2008</u>
Proceeds on sales during the year	\$ 2,694,087	\$ 2,994,721
Cash flow remitted on collections	\$ 237,866	\$ -
Cash flows received on retained interests	\$ 65,157	\$ -

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#### 23. Interest Rate Swap Agreements

The Credit Union enters into interest rate swap agreements in order to hedge against exposure to interest rate fluctuations. At December 31, 2009, the Credit Union was party to three interest rate swap agreements (none in 2008) with Central 1. The agreements in aggregate represent a notional principal amount of \$9,730,597 which is used as the basis for determining payments under the contracts and is not actually exchanged between the Credit Union and Central 1, its counterparty.

Interest rate swap agreements are valued by netting the discounted variable and fixed cash flows. Variable cash flows are valued using implied interest rates as determined by current Canadian Dealer Offer Rate (CDOR) and Swap interest rates, and term relationships. Fixed cash flows are based on the rates stated in the agreements.

Two interest rate swap agreements are used to hedge interest rate risk incurred by securitizing mortgages. The fair value of future cash flows on securitized mortgages fluctuates with interest rates. As with swaps, the variable cash flows are valued using implied interest rates as determined by current CDOR and Swap interest rates, and term relationships.

An interest swap agreement for \$5,000,000 was purchased on December 30, 2009 and the fair value of this swap is assumed not to have changed materially as of December 31, 2009.

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## ROCHDALE CREDIT UNION LIMITED

### Notes to Financial Statements

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#### 23. Interest Rate Swap Agreement (continued)

The net value of the interest rate swap agreements and the market value change on securitized mortgages are recorded in the Balance Sheet at fair value.

Notional Amount	Maturity Date	Paying Rate	Receiving Rate	Fair Value	Securitized Mortgage Market Value Adjustment	Net Market Value
2,362,911	17-Jul-12	1.73%	30 day CDOR plus 0.95%	(\$6,769)	\$9,068	\$2,299
2,367,686	15-Nov-13	2.34%	30 day CDOR plus 0.55%	(\$5,916)	\$6,863	\$947
\$5,000,000	30-Dec-11	30 day CDOR	2.14%	Nil		
				(\$12,685)	\$15,931	\$3,246

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#### 24. Future Accounting Changes

##### International Financial Reporting Standards (IFRS)

The Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises will be required in 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.