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**BAYSHORE CREDIT UNION LTD.  
FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2010**

**WILKINSON & COMPANY LLP**  
**Chartered Accountants & Tax Specialists Since 1964**

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Since 1964

**BAYSHORE CREDIT UNION LTD.  
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AS AT DECEMBER 31, 2010**

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## AUDITORS' REPORT

To the Members of  
Bayshore Credit Union Ltd.

### Report on the Financial Statements

We have audited the accompanying financial statements of Bayshore Credit Union Ltd., which comprise the balance sheet as at December 31, 2010 and the statements of retained earnings, earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Wilkinson & Company LLP*

TRENTON, Canada  
February 4, 2011

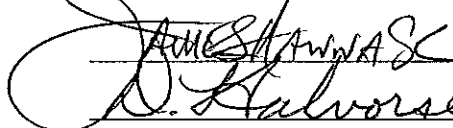
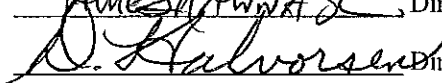
Chartered Accountants  
Licensed Public Accountants

**WILKINSON & COMPANY LLP**  
Chartered Accountants & Tax Specialists Since 1964

**BAYSHORE CREDIT UNION LTD.  
BALANCE SHEET AS AT DECEMBER 31, 2010**

	2010 \$	2009 \$
<b>ASSETS</b>		
<b>VARIABLE INTEREST RATE</b>		
Cash and short-term deposits - Note 3	7,547,715	6,858,015
Loans to members - Note 4	12,619,723	11,966,745
	<u>20,167,438</u>	<u>18,824,760</u>
<b>FIXED INTEREST RATE</b>		
Loans to members - Note 4	26,070,785	26,489,067
<b>PROPERTY, PLANT AND EQUIPMENT - Note 5</b>		
	2,940,715	2,942,750
<b>OTHER ASSETS AND INVESTMENTS - Note 6</b>		
	4,739,248	4,491,167
	<u>53,918,186</u>	<u>52,747,744</u>
<b>LIABILITIES</b>		
<b>NON-INTEREST BEARING</b>		
Demand deposits	8,313,023	7,723,648
<b>VARIABLE INTEREST RATE</b>		
Demand deposits	16,230,056	16,224,922
Registered Savings Plans held in trust	716,704	446,607
Registered Income Funds held in trust	2,430	2,808
	<u>16,949,190</u>	<u>16,674,337</u>
<b>FIXED INTEREST RATE - Note 8</b>		
Term deposits	16,034,056	15,770,670
Registered Savings Plans held in trust	6,076,007	6,181,239
Registered Income Funds held in trust	2,668,345	2,675,258
	<u>24,778,408</u>	<u>24,627,167</u>
<b>ACCOUNTS PAYABLE AND ACCRUED LIABILITIES - Note 9</b>	277,060	340,848
<b>FUTURE INCOME TAXES PAYABLE</b>	20,000	20,000
<b>LIABILITIES QUALIFYING AS REGULATORY CAPITAL</b>		
Share deposits - Note 8	1,190,632	1,112,452
	<u>51,528,313</u>	<u>50,498,452</u>
<b>MEMBERS' EQUITY</b>		
<b>RETAINED EARNINGS</b>	2,389,873	2,249,292
	<u>53,918,186</u>	<u>52,747,744</u>

APPROVED ON BEHALF OF THE BOARD

 Director  
 Director

The accompanying notes form an integral part of these financial statements

**BAYSHORE CREDIT UNION LTD.  
STATEMENT OF RETAINED EARNINGS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010	2009
	\$	\$
<b>RETAINED EARNINGS - BEGINNING OF YEAR</b>	<b>2,249,292</b>	<b>2,133,404</b>
<b>NET EARNINGS FOR YEAR</b>	<b>140,581</b>	<b>115,888</b>
<b>RETAINED EARNINGS - END OF YEAR</b>	<b>2,389,873</b>	<b>2,249,292</b>

The accompanying notes form an integral part of these financial statements

**BAYSHORE CREDIT UNION LTD.**  
**STATEMENT OF EARNINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010	2009
	\$	\$
<b>REVENUE</b>		
Interest on loans - Note 13	2,321,141	2,450,687
Investment and other income	421,456	443,339
Rent	98,302	89,749
	<u>2,840,899</u>	<u>2,983,775</u>
<b>INTEREST EXPENSE</b>		
Demand deposits	34,033	29,903
Term deposits	373,413	443,451
Registered Savings Plans	133,061	172,513
Registered Income Funds	66,368	74,725
Distribution to members - Dividends on shares	31,550	29,470
	<u>638,425</u>	<u>750,062</u>
Outside borrowings	4,419	6,907
	<u>642,844</u>	<u>756,969</u>
<b>GROSS FINANCIAL MARGIN</b>	<u>2,198,055</u>	<u>2,226,806</u>
<b>EXPENSES</b>		
Administrative - Schedule I	881,336	854,565
Amortization of property, plant and equipment	149,247	156,064
Bad debts	139,664	198,300
Deposit Insurance Corporation of Ontario Assessment	42,122	48,051
Salaries and employee benefits	864,046	862,750
	<u>2,076,415</u>	<u>2,119,730</u>
<b>EARNINGS FROM OPERATIONS</b>	<u>121,640</u>	<u>107,076</u>
<b>OTHER INCOME</b>		
Write- up of ABCP LP - Note 6	45,027	34,107
<b>EARNINGS BEFORE INCOME TAX EXPENSE</b>	<u>166,667</u>	<u>141,183</u>
<b>INCOME TAX EXPENSE</b>		
Current	26,086	19,295
Future	-	6,000
	<u>26,086</u>	<u>25,295</u>
<b>NET EARNINGS FOR YEAR</b>	<u>140,581</u>	<u>115,888</u>

The accompanying notes form an integral part of these financial statements

**BAYSHORE CREDIT UNION LTD.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010 \$	2009 \$
<b>OPERATING ACTIVITIES</b>		
Net earnings for year	140,581	115,888
Adjustment for items which do not affect cash -		
Amortization of property, plant and equipment	149,247	156,064
Loss on disposal of property, plant and equipment	29,251	7,128
Future income taxes	-	6,000
Write-up of ABCP LP	(45,027)	(34,107)
	<u>274,052</u>	<u>250,973</u>
Decrease (increase) in other assets and investments, excluding write-up of ABCP LP	(203,054)	266,713
Decrease in accounts payable and accrued liabilities	(63,788)	(11,996)
<b>CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES</b>	<u>7,210</u>	<u>505,690</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(176,463)	(104,086)
Decrease (increase) in loans to members	(234,696)	8,456
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(411,159)</u>	<u>(95,630)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in deposits	594,509	1,515,469
Increase in Registered Savings Plans	164,865	(109,161)
Increase (decrease) in Registered Income Funds	(7,291)	123,733
Increase (decrease) in term deposits	263,386	(1,391,162)
Increase (decrease) in share capital	78,180	(15,435)
<b>CASH FLOWS PROVIDED FROM FINANCING ACTIVITIES</b>	<u>1,093,649</u>	<u>123,444</u>
<b>NET INCREASE IN CASH RESOURCES</b>	<u>689,700</u>	<u>533,504</u>
<b>CASH RESOURCES - BEGINNING OF YEAR</b>	<u>6,858,015</u>	<u>6,324,511</u>
<b>CASH RESOURCES - END OF YEAR</b>	<u>7,547,715</u>	<u>6,858,015</u>
<b>REPRESENTED BY:</b>		
Cash	<u>7,547,715</u>	<u>6,858,015</u>

The accompanying notes form an integral part of these financial statements

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**1. NATURE OF BUSINESS**

Bayshore Credit Union Ltd. is a company incorporated under the laws of Ontario, providing financial and banking services to its members in the Quinte area.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include valuation of loans receivable and the estimated useful life of property, plant and equipment. Actual results could differ from those estimates.

**(b) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, current accounts and short-term deposits with other financial institutions with an original term of 90 days or less.

**(c) Short-Term Deposits and Liquidity Reserves**

Short-term deposits are classified as held-for-trading and therefore recorded at their fair value. Liquidity reserves are classified as held-to-maturity because the corporation is required to hold these reserves under their agreement with Central 1 Credit Union. Liquidity reserves are to be recorded at amortized cost using the effective interest method.

**(d) Member Deposits**

Member deposits are classified as other liabilities. These deposits are to be recorded at amortized cost using the effective interest method.

**(e) Loans to Members**

Loans are classified as loans and receivables and therefore recorded at amortized cost using the effective interest method. However, if there is an impairment, the loss in value is to be recognized in net income in the period of impairment.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**2. SIGNIFICANT ACCOUNTING POLICIES - (Cont'd)**

**(f) Allowance for Impaired Loans**

Loans are recorded at the unpaid principal plus accrued interest, less an allowance established to provide against probable losses on impaired loans.

The Credit Union maintains allowances for loan losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts determined by reference to the fair value of underlying security and expected future cash flows. A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal are contractually past 90 days due are automatically recognized as impaired in accordance with Canadian generally accepted accounting principles as interpreted by DICO by-law #6.

The Credit Union writes off to the allowance for impaired loans all amounts known to be uncollectible. Amounts recovered from loans previously written off are credited to the allowance for impaired loans in the year recovered. The allowance recorded in the financial statements is adjusted to the required amount determined above by a charge or credit to net income for the year.

**(g) Property, Plant and Equipment and Amortization**

Property, plant and equipment are carried at cost. Profits and losses on the sale of property, plant and equipment are charged to operations in the year of disposal. Amortization of property, plant and equipment, which is based on management's estimate of the useful life, is calculated using the rates applied as follows, from the month of addition:

Asset	Basis	Rate
Buildings	Declining balance	4%
Furniture and equipment	Declining balance	20%
Automated teller machine	Declining balance	15%
Computer equipment	Declining balance	20%
Paving	Declining balance	8%

**(h) Registered Savings Plans and Registered Income Funds Held in Trust**

Co-operative Trust Company of Canada is the trustee for the registered savings plans and registered income funds offered to members. Under the trust agreement, member's contributions and earnings are deposited in the Credit Union. Payment to members on withdrawal is made by the Credit Union on behalf of the trust company.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**2. SIGNIFICANT ACCOUNTING POLICIES - (Cont'd)**

**(i) Income Taxes**

The Credit Union follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

**(j) Revenue Recognition**

**Loan interest**

Interest income from loans is accounted for on the accrual basis, except on loans classified as impaired. When a loan is classified as impaired, recognition of interest, in accordance with the terms of the original loan agreement, ceases except when, in management's opinion the loan is fully secured, then interest is continued to be recorded on the accrual basis. Interest received on an impaired loan is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the interest received is credited to the principal.

**Fee income**

Fee income is recorded as income according to the underlying standard agreement or when services are rendered.

**Investment Interest**

Interest on investments is recorded on an accrual basis and is included in interest income.

**(k) Foreign exchange**

Monetary assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenue and expenses denominated in foreign currency are translated at the rates in effect on the date of transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**3. CASH AND SHORT-TERM DEPOSITS**

	2010	2009
	\$	\$
Cash	7,547,715	6,858,015

**4. LOANS TO MEMBERS**

	2010	2009
	\$	\$
<b>(a) Loans to Members</b>		
Personal loans	21,613,755	22,152,332
Residential mortgages	17,189,689	16,458,522
	38,803,444	38,610,854
Allowance for impaired loans	(112,936)	(155,042)
	38,690,508	38,455,812
Balance Sheet Presentation		
Variable interest rates	12,619,723	11,966,745
Fixed interest rates	26,070,785	26,489,067
	38,690,508	38,455,812

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**4. LOANS TO MEMBERS - (Cont'd)**

**(a) Loans to Members - (Cont'd)**

Average effective interest rates on the members' loans are:

	2010	2009
	%	%
Variable interest rate loans and mortgages	6.45	6.54
Fixed interest rate loans and mortgages	5.78	6.27

The loans mature as follows:

	\$
2011	2,791,553
2012	8,389,952
2013	6,831,788
2014	10,160,277
2015	7,816,224
Thereafter	2,700,714
	<hr/> 38,690,508 <hr/>

**(b) Continuity of Allowance for Impaired Loans**

	2010	<u>Provision</u>			2010	2009
	Beginning			Charged to	Ending	Ending
	Balance	Recoveries	Write-Offs	Operations	Balance	Balance
	\$	\$	\$	\$	\$	\$
Loans:						
Personal	155,042	2,006	125,879	(169,991)	112,936	155,042
	<hr/>					

Total loan principal and accrued interest on which the allowance has been calculated is \$248,534.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**5. PROPERTY, PLANT AND EQUIPMENT**

	Cost \$	2010 Accumulated amortization \$	Net Book Value \$	2009 Net Book Value \$
Land	654,878	-	654,878	654,878
Buildings	2,402,394	547,966	1,854,428	1,907,927
Furniture and equipment	522,635	421,876	100,759	118,648
Automated teller machine	168,301	21,407	146,894	76,065
Computer equipment	715,124	567,956	147,168	145,462
Paving	69,411	32,823	36,588	39,770
	<b>4,532,743</b>	<b>1,592,028</b>	<b>2,940,715</b>	<b>2,942,750</b>

**6. OTHER ASSETS AND INVESTMENTS**

	2010 \$	2009 \$
Investments in Central 1 Credit Union		
Shares	1,465	62,445
Liquidity pool	3,942,737	3,708,961
Class A Shares	124,319	130,450
Class E Share	245,500	181,900
Asset Backed Commercial Paper Limited Partnership	260,233	227,398
Shares in Co-op Trust Company	1,000	1,000
Shares in Co-operators Ltd.	15,000	15,000
	<b>4,590,254</b>	<b>4,327,154</b>
Other assets - Note 7	148,994	164,013
	<b>4,739,248</b>	<b>4,491,167</b>

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**6. OTHER ASSETS AND INVESTMENTS - (Cont'd)**

**INVESTMENTS IN CENTRAL 1 CREDIT UNION**

As a condition of membership in Central 1, the Credit Union is required to maintain an investment in the shares and liquidity pool deposit fund of Central 1. The shares in Central 1 have been classified as available-for-sale. No market exists for these investments, however, they may be surrendered upon withdrawal from membership provisions. Accordingly, there is no separately quoted market value for these shares. Therefore, they have been recorded at cost. Interest paid on the liquidity pool deposit is based on the rate of interest paid on Government of Canada Treasury Bills. The liquidity reserves are classified as held-to-maturity because the corporation is required to hold these reserves under their agreement with Central 1. Liquidity reserves are to be recorded at amortized cost using the effective interest method.

In 2010, interest income on Central 1 investments was \$40,420 (\$53,678 in 2009).

**INVESTMENTS IN OTHER ASSETS**

Shares in Co-op Trust Company and Co-operators Ltd. are fully participating and may be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions. These shares have been classified as available-for-sale. No market exists for these investments and accordingly, there is no separately quoted market value for these shares. Therefore, they have been recorded at cost.

**ASSET BACKED COMMERCIAL PAPER LIMITED PARTNERSHIP**

A limited partnership was created when Central 1 was formed by the merger of CUCCO and CUCBC. This limited partnership (ABCP LP) holds an investment in certain third-party asset-backed commercial paper (ABCP) and is funded by member credit unions in proportion to their share investment. As there is still no liquid market in these ABCP investments, the fair values are provided by Edenbrook Hill Capital Ltd., a firm engaged by Central 1 to provide an independent valuation of the assets underlying the ABCP investments.

The ABCP LP Board of Directors provided a fair value of the ABCP LP as at December 30, 2010. The Credit Union's proportionate share of the fair value amounted to \$260,233 (\$227,398 in 2009) and as a result, the investment in the ABCP LP was effectively written up \$45,027 at December 31, 2010. (Write-up of \$34,107 in 2009).

The investment in the ABCP LP has been classified as held-for-trading and therefore recorded at fair value.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles and subject to an annual external audit.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**7. OTHER ASSETS**

	2010	2009
	\$	\$
Accrued interest	105,093	123,301
Prepaid expenses, accounts receivable and deposits	41,142	40,712
GST/HST recoverable	2,759	-
	<hr/>	<hr/>
	148,994	164,013
	<hr/>	<hr/>

**8. MEMBER DEPOSITS AND SHARE CAPITAL**

Member deposits include:

Variable interest rate demand deposits and registered funds held in trust

Fixed interest rate term deposits and registered funds held in trust

Members are required to maintain permanent share capital in the Credit Union that in 2010 totalled \$1,067,284 (\$1,112,452 in 2009). Member deposits qualifying as voluntary share capital amounted to \$123,348 at December 31, 2010.

Average effective interest rates on these deposits are:

	2010	2009
	%	%
Variable interest rate demand deposits and registered funds held in trust	0.21	0.21
Fixed interest rate term deposits and registered funds held in trust	2.31	2.72

The fixed interest rate deposits and registered funds mature as follows:

	\$
2011	16,563,652
2012	2,606,909
2013	3,381,456
2014	432,277
2015	1,794,114
	<hr/>
	24,778,408
	<hr/>

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2010	2009
	\$	\$
Accrued interest on members' deposits	194,534	224,948
Accounts payable and accrued liabilities	74,316	98,024
Income taxes payable	8,210	17,876
	<hr/>	<hr/>
	277,060	340,848

**10. INTEREST AND INCOME TAXES PAID**

	2010
	\$
Interest paid	688,835
Income taxes paid	17,876

**11. CAPITAL MANAGEMENT**

The Credit Union maintains policies and procedures relative to capital management so as to ensure capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are:

- To ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the Credit Union and to support the current and planned operations and portfolio growth.
- To provide a safety net for the variety of risks to which the Credit Union is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values.
- To provide a basis for confidence among members, depositors, creditors and regulatory agencies.
- To establish a capital management policy for the Credit Union appropriate for current legal and economic conditions, including compliance with regulatory requirements and with DICO's Standards of Sound Business and Financial Practices.

The Credit Union Act requires the Credit Union to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories. The prescribed risk weights are dependent upon the degree of risk inherent in the asset. Capital that is eligible to be included in this calculation is comprised of share capital, retained earnings and the non-specific allowance for impaired loans.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**11. CAPITAL MANAGEMENT - (Cont'd)**

The Credit Union's Board of Directors perform periodic reviews of the Credit Union's capital levels to ensure that they remain in compliance with the Act.

The Credit Union is in compliance with the Act as indicated below:

	Required	Actual for Credit Union
Retained earnings and share capital, as a percentage of assets	4.00	6.64
Retained earnings and share capital, as a percentage of risk weighted assets	8.00	13.21

**12. LOANS TO RELATED PARTIES**

At the year-end, the Credit Union had total loans and mortgages to directors, employees, and related parties as follows:

	2010 \$
Board Members, Employees and Related Parties	<u>2,240,401</u>

The loans to employees and directors are offered at the following reduced rates:

**Mortgages**

2% below prevailing rates

**Personal loans**

Five years or more service - 1% below Bayshore Credit Union prime

**13. INTEREST ON LOANS**

	2010 \$	2009 \$
Personal loans	1,483,461	1,597,175
Residential mortgage loans	837,680	853,512
	<u>2,321,141</u>	<u>2,450,687</u>

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**14. LOAN COMMITMENTS**

Approved loan commitments and actual related loan advances at December 31, 2010, were as follows:

	Approved \$	Actual \$
Deposit Lines of Credit	955,985	281,381
Merit Lines of Credit	7,431,100	4,090,206
	<hr/> 8,387,085	<hr/> 4,371,587

**15. LEASE COMMITMENTS**

The Credit Union has entered into agreements to lease certain of its equipment. These leases expire in January 2014 and October 2014. The annual minimum rental payments required under these leases over the next four years are as follows:

	\$
2011	33,389
2012	33,389
2013	33,389
2014	27,307

**16. LIQUIDITY**

The Credit Union has established its liquidity policy limits as follows:

- (a) Minimum liquidity - 7.00%
- (b) Risk tolerance - 10.00%
- (c) Maximum liquidity - 25.00%

The actual liquidity level for the Credit Union as at December 31, 2010 was 22.43%.

As can be seen, the Credit Union is in compliance with its established liquidity policy limits and there are not any trends that would indicate the Credit Union will not be able to comply with these policy limits.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**17. FINANCIAL RISK MANAGEMENT**

The nature of the Credit Union's holdings of financial instruments exposes the Credit Union to credit, liquidity and market risk.

**Credit Risk**

Credit risk is the potential for financial loss to the Credit Union if a borrower fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of the Credit Union.

The Credit Union's primary objective is to create a methodological approach to its credit risk assessment in order to better understand, select and manage its exposures. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope and is managed through an infrastructure based upon:

- (i) Centralized approval by the Board of Directors of all credit risk policies
- (ii) Centralized approval by the Chief Executive Officer of the discretionary limits of lending officers
- (iii) Credit approvals are escalated to the Chief Executive Officer and ultimately to the Board of Directors, dependant upon credit exposure level and restricted party transactions
- (iv) Credit department oversight of the following:
  - (a) The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies
  - (b) Approval of the standards used in extending, monitoring and reporting of credit business
  - (c) Implementation of an ongoing monitoring process of the key risk parameters used in the credit risk models

The Board has delegated to the Chief Executive Officer the authority to establish a lending hierarchy resulting in a procedure for the delegation of lending authority being developed and in use. The Credit Union employs persons who are competent and qualified to manage its credit granting activities. Staff may be designated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio are granted the authority to use judgment and discretion consistent with policy in discharging their duties.

Management has the responsibility to:

- (i) Systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio
- (ii) Prudently manage the exposure to default and loss arising from those risks
- (iii) Employ and train personnel who can implement risk measurement and credit management techniques

**BAYSHORE CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**17. FINANCIAL RISK MANAGEMENT - (Cont'd)**

Adequate measuring, monitoring and reporting on risk position and exposure is maintained and compliance and audit responsibilities are in place and adhered to. The Board of Directors receives regular summary measurements of the credit portfolio.

The Credit Union's credit risk policies, processes and methodologies have not changed materially from the prior year.

The carrying amount of loans to members recorded in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk without taking into account the value of any collateral obtained. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained.

**Interest Rate Risk**

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when it enters into banking transactions with its members, specifically deposit taking and lending. When asset and liability principal and interest cash flows have different payment and maturity dates, this results in mismatched positions. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans and deposits, and how frequently members exercise options, such as prepaying a loan before its maturity date.

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board of Directors. These policies and limits ensure that the entity is in full adherence to the regulatory requirements prescribed in the Credit Union Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset and liability management rests with the Board. As such, the Board of Directors receives regular reports on risk exposures and performance against approved limits.

The key elements of the Credit Union's interest rate risk management framework include:

- (i) Guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages, and investments and the management of asset cash flows in relation to liability cash flows
- (ii) Requirements for comprehensive measuring, monitoring and reporting on risk position and exposure

Valuations of asset and liability positions are performed on a monthly basis. The Credit Union's objective is to establish and maintain a balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

**BAYSHORE CREDIT UNION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**17. FINANCIAL RISK MANAGEMENT - (Cont'd)**

**Liquidity Risk**

Liquidity risk arises in the course of managing assets and liabilities. It is the risk that the Credit Union is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund the balance sheet under both normal and adverse market environments. The Credit Union's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure that the Credit Union is in full adherence to the regulatory requirements prescribed in the Credit Union Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

The key elements of the Credit Union's liquidity risk management framework include:

- (i) Limits on the sources, quality and amount of liquid assets to meet operational and regulatory requirements
- (ii) Methodology to achieve an acceptable yield on the operating liquidity investment portfolio with prudent risk management restrictions
- (iii) Prudence tests of quality and diversity where investments bear credit risk
- (iv) Parameters to limit term extension risk
- (v) Implementation of deposit concentration limits in order to ensure diversification and stability of deposit funding
- (vi) Requirements for adequate measuring, monitoring and reporting on risk position and exposure

The Credit Union aims to maintain a minimum operating liquidity, defined as cash resources (liquid assets) to the sum of members' deposits, within 7% and 25%.

The Credit Union has established its liquidity policy limits as 7% being the minimum level, 10% being the risk tolerance level and 25% being the maximum level. The 7% minimum level and 10% risk tolerance level have been established in order to maintain a comfortable level in order to meet cash needs, even during periods of market volatility. The 25% maximum level has been established in recognition that too much excess liquidity has a negative impact on earnings. As at December 31, 2010, the Credit Union's liquidity level was 22.43%.

**BAYSHORE CREDIT UNION LTD.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**17. FINANCIAL RISK MANAGEMENT - (Cont'd)**

**Foreign Currency Risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from US dollar transactions. The Credit Union's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure that the Credit Union is in full adherence to the regulatory requirements prescribed in the Credit Union Act and DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variance from approved limits. The aforementioned activities that expose the entity to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar.

**18. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the AcSB affirmed its intention to replace Canadian GAAP with IFRS. Bayshore Credit Union Ltd. will adopt IFRS commencing January 1, 2011, also presenting comparative financial statements for the year commencing January 1, 2010. As a result, Bayshore Credit Union Ltd. will publish its first financial statements, prepared in accordance with IFRS, for the year ending December 31, 2011.

Pursuant to the implemented project plan, an assessment has been completed to identify the key accounting differences from Canadian GAAP. Based on the existing IFRS, the areas that will have an impact on the financial and capital reporting include financial instruments and the accounting for loan losses.

**BAYSHORE CREDIT UNION LTD.  
SCHEDULE OF ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010 \$	2009 \$
Advertising	57,510	39,310
Annual meeting	1,996	1,284
Bank charges and fees	119,954	108,625
Board remuneration	27,700	27,700
Board training	2,844	2,735
Bonding and insurance	69,029	57,848
Conference and travel	12,957	14,094
Data processing	102,815	114,403
Education	3,057	814
Equipment contracts	43,737	47,502
Foreign exchange	(28,222)	(31,607)
Maintenance and repair	157,502	147,173
Miscellaneous	29,361	31,189
Municipal tax	47,115	75,347
Office and stationery	73,958	71,824
Organizational costs	45,320	41,402
Postage	4,956	5,109
Professional fees	36,265	27,151
Telephone	28,174	27,961
Utilities	45,308	44,701
	<b>881,336</b>	<b>854,565</b>