

**CN (LONDON) CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS**

**APRIL 30, 2010**

# SAMUEL CHAN

CHARTERED ACCOUNTANT

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## AUDITOR'S REPORT

To the Members of  
**CN (London) Credit Union Limited**  
London, Ontario

I have audited the balance sheet of **C N (London) Credit Union Limited** as at **April 30, 2010**, and the statements of operations, capital adequacy reserve, undivided earnings, general reserve and changes in cash flows for the year ended. These financial statements are the responsibility of the credit union's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 amount 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the credit union as at **April 30, 2010** and the results of its operations and the changes in its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

London, Ontario  
May 22, 2010

**SAMUEL CHAN**  
Chartered Accountant  
Licensed Public Accountant

# CN (LONDON) CREDIT UNION LIMITED

## Balance sheet

As at April 30, 2010

Statement 1

	<b>2010</b>	<b>2009</b>
<b><u>ASSETS</u></b>		
Cash and receivables		
Cash resources (note 2)	\$ 592,493	\$ 188,937
Accounts receivable		896
Prepaid expenses	<u>28,313</u>	<u>29,721</u>
	<u>620,806</u>	<u>219,554</u>
Investments - at cost (note 4)	<u>1,957,762</u>	<u>3,055,501</u>
Loans to members (note		
Lines of credit	4,866,413	4,683,639
Personal	1,756,197	1,924,428
Mortgages	361,596	355,796
Accrued interest	<u>12,250</u>	<u>10,873</u>
	6,996,456	6,974,736
Less allowance for doubtful loans	<u>(84,032)</u>	<u>(87,000)</u>
	<u>6,912,424</u>	<u>6,887,736</u>
Fixed assets – at cost (note 1 and 5)	<u>5,880</u>	<u>3,098</u>
	<b><u>\$ 9,496,872</u></b>	<b><u>\$10,165,889</u></b>
Liabilities		
Accounts payable and accrued charges	\$ 34,168	\$ 36,720
Taxes payable	<u>1,606</u>	<u>(4,134)</u>
	<u>35,774</u>	<u>32,586</u>
Members' deposits:		
Deposits (note 6)	6,052,937	6,427,306
Registered Retirement Savings Plan	1,180,553	1,207,004
Registered Retirement Income Funds	392,482	487,775
Share Dividend Savings Accounts	<u>1,071,404</u>	<u>1,253,127</u>
	<u>8,697,376</u>	<u>9,375,212</u>
Members' equity:		
Membership share capital (note 7)	71,550	74,300
Capital adequacy reserve (statement 2)	510,000	510,000
Retained earnings (statement 2)	<u>182,172</u>	<u>173,791</u>
	<u>763,722</u>	<u>758,091</u>
	<b><u>\$ 9,496,872</u></b>	<b><u>\$10,165,889</u></b>

Approved on behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

(see accompanying notes)

**CN (LONDON) CREDIT UNION LIMITED**

Statement of capital adequacy reserve and retained earnings

For the year ended April 30, 2010

Statement 2

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	<b>2010</b>	<b>2009</b>
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**CAPITAL ADEQUACY RESERVE**

Balance, beginning of year	\$ 510,000	\$ 510,000
Transfer from retained earnings	<u>      NIL</u>	<u>      NIL</u>
Balance, end of year	<b><u>\$ 510,000</u></b>	<b><u>\$ 510,000</u></b>

**RETAINED EARNINGS**

Balance, beginning of year	\$ 173,791	\$ 173,535
Add: net income for the year (statement 3)	<u>      8,381</u>	<u>      256</u>
Balance, end of year	<b><u>\$ 182,172</u></b>	<b><u>\$ 173,791</u></b>

(see accompanying notes)

# CN (LONDON) CREDIT UNION LIMITED

## Statement of operations

For the year ended April 30, 2010

Statement 3

	2010		2009	
Revenue				
Interest on personal loans to members	\$ 120,191	29.8%	\$ 133,599	26.4%
Interest lines of credit	173,333	3.4	187,910	37.1
Interest on mortgage loans to members	13,894	43.0	30,081	5.9
Investment income	39,465	9.8	92,535	18.2
Miscellaneous	<u>49,063</u>	<u>14.0</u>	<u>62,959</u>	<u>12.4</u>
	<u>395,946</u>	<u>100.0</u>	<u>507,084</u>	<u>100.0</u>
Financial Expenses				
Interest on members' deposits	30,752	7.6	104,157	20.5
Interest on members' R.R.S.P.'s and R.R.I.F.'s	<u>6,314</u>	<u>1.6</u>	<u>21,557</u>	<u>4.3</u>
	<u>37,066</u>	<u>9.2</u>	<u>125,714</u>	<u>24.8</u>
Operating Spread	<u>358,880</u>	<u>90.8</u>	<u>381,370</u>	<u>75.2</u>
Insurance Expenses				
Share life insurance	2,904		12,144	
Loan life insurance			<u>360</u>	
	<u>2,904</u>	<u>.7</u>	<u>12,504</u>	<u>2.5</u>
Remuneration to Officers and Staff				
Honoraria to officers	4,400		4,440	
Salaries to employees	157,615		176,497	
Employee benefits	<u>17,539</u>		<u>16,469</u>	
	<u>179,554</u>	<u>44.5</u>	<u>197,406</u>	<u>38.9</u>
Administrative expenses Schedule 1	<u>155,778</u>	<u>38.6</u>	<u>153,089</u>	<u>30.2</u>
Total operating expenses	<u>338,236</u>	<u>83.8</u>	<u>362,999</u>	<u>71.6</u>
Net income before dividend and rebate distribution	<u>20,644</u>	<u>7.0</u>	<u>18,371</u>	<u>3.6</u>
Dividends and loan rebates (note 8)	(18,286)	(4.5)	(2,761)	(.5)
Gain (loss) on write-up (down) of ABCP (note 4)	<u>7,585</u>	<u>.8</u>	<u>(15,354)</u>	<u>(3.0)</u>
	<u>(10,701)</u>	<u>(3.7)</u>	<u>(18,115)</u>	<u>(3.5)</u>
Net income before income taxes	9,943	3.3	256	.1
Provision for taxes	<u>(1,562)</u>	<u>(.4)</u>		
Net income (loss) for the year	<u>\$ 8,381</u>	<u>2.9%</u>	<u>\$ 256</u>	<u>.1%</u>

(see accompanying notes)

# CN (LONDON) CREDIT UNION LIMITED

## Statement of changes in cash flows

For the year ended April 30, 2010

Statement 4

	2010	2009
Cash provided by (used in) operating activities:		
Net income for the year	\$ 8,381	\$ 256
Charge to operations not requiring a current cash payment -		
Allowance for doubtful accounts	2,968	(18,000)
Depreciation and amortization	<u>1,341</u>	<u>896</u>
	<u>12,690</u>	<u>(16,848)</u>
Change in non-cash working capital balances related to operations -		
Accounts receivable	896	(896)
Accrued interest receivable	4,168	34,930
Prepaid expenses	1,408	2,006
Accounts payable & accrued charges	(2,552)	(29,326)
Taxes payable	<u>(5,741)</u>	<u>(4,813)</u>
	<u>(1,821)</u>	<u>1,901</u>
Cash provided by (used in) operating activities:	<u>10,869</u>	<u>(14,947)</u>
Cash provided by (used in) operating activities:		
Increase (decrease) of investments	1,097,740	(54,898)
Purchase of fixed assets	<u>(4,123)</u>	<u>(508)</u>
	<u>1,093,617</u>	<u>(55,406)</u>
Cash provided by (used in) financing activities:		
(Increase) decrease in lines of credit	(182,774)	(613,930)
Decrease (increase) in Personal Loans	168,231	107,355
(Increase) decrease in Mortgages	(5,800)	380,776
Increase (decrease) in Deposits	(374,369)	(212,240)
Increase (decrease) in R.R.S.P.'s	(26,451)	(13,954)
Increase (decrease) in R.R.I.F.'s	(95,293)	(45,568)
Increase (decrease) in Share Dividend Savings	(181,724)	19,301
Increase (decrease) in Share Capital	<u>(2,750)</u>	<u>(2,600)</u>
	<u>(700,930)</u>	<u>(380,860)</u>
Net increase (decrease) in cash during year	403,556	(451,213)
Cash resources, beginning of year	<u>188,937</u>	<u>640,150</u>
Cash resources, end of year	<u><b>\$ 592,493</b></u>	<u><b>\$ 188,937</b></u>
<b>Supplemental cash flow information</b>		
Interest paid during year	\$55,352	\$128,475
Income taxes paid during the year	1,562	NIL

(see accompanying notes)

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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### **Nature of Business**

CN (London) Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act and operates in accordance with this statute and the accompanying regulations. The Credit Union is a member of the Deposit Insurance Corporation of Ontario ("DICO") and Central 1 Credit Union ("Central 1"). The Credit Union is a closed bond Credit Union and provides financial products and services to employees of Canadian National Railroad, Via Rail, Allstream and their families throughout Ontario.

### **1. Significant Accounting Policies**

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

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

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

### **Use of Estimates**

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

### **Investments**

Investments designated as loans and receivables are accounted for at amortized cost and income thereon accrues using the effective interest method.

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

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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

### **Member shares**

The Credit Union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of membership share accounts and the related distributions paid on such financial instruments. In accordance with these recommendations, the Credit Union's shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification. Dividends or other payments related to member shareholdings are reported in the statement of operations as financial expense.

### **Loans to members**

Loans to members are stated at amortized cost. Interest income is recorded using the effective interest method over the terms of the loans. Loan fee income that contributes to the overall yield of a loan is incorporated into the effective interest rate and recognized in income over the term of the loan.

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

Once a loan is classified as impaired, all previously accrued interest is reversed and charged against current income unless the amount is fully secured. Loans are generally returned to accrual status when all delinquent principal and interest payments are brought to current and the timely collection of both principal and interest is reasonably assured.

### **Members' deposits**

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

# CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2010

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## **Future Changes in Accounting Policy**

In March 2009, the Canadian Accounting Standards Board reconfirmed in the second omnibus Exposure Draft that IFRS (International financial Reporting Standards) will replace Canadian GAAP (Generally Accepted Accounting Policies) for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. The credit union is included in the definition of a publicly accountable enterprise and, as such, it will be required to prepare the April 30, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

The Credit Union's project plan includes three phases (1) scope and plan (2) design and build (3) implement and review. The scope and plan phase is underway and the standards that are expected to have a significant impact on the Credit Union's recognition, measurement, presentation and disclosure of its financial statements are being identified.

The Credit union is in the process of assessing the differences between their current accounting policies and those provided by IFRS, as well as the elections and policy choices available for adoption. Its assessment will include the potential impact of the conversion effort on its systems, internal controls over financial reporting, disclosure controls and business activities.

Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011 and, therefore, applicable to its first IFRS balance sheet. Its IFRS project plan includes activities to ensure it monitor these changes. At this point in the project, it cannot reasonably estimate the quantitative impact of transitioning to IFRS on its financial statements.

## **Reclassifications**

Certain of the 2009 amounts have been reclassified to conform to the presentation adopted in 2010.

## **Capital Assets and Amortization:**

All capital assets are carried at acquisition cost less accumulated amortization. Assets are generally amortized on the following basis:

Office Equipment	20% declining balance
Computer System	30% declining balance

# CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2010

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## **Income Taxes:**

The liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax benefits and obligations are determined based on differences between the financial reporting and the tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when differences are expected to reverse.

## **Foreign Exchange:**

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

## **2. Cash Resources:**

The term "cash resources" as used in these financial statements consists of cash on hand, deposits maturing or callable within ninety days and payroll deductions receivable that have been made and which are in the course of being remitted. The credit union has available a line of credit with Central 1 in the amount of \$203,000 CDN and \$1,000 US to cover shortfalls in cash resources. This line of credit is secured by an assignment of book debts and a general security agreement covering all assets of the credit union.

At April 30, 2010 the credit union has not utilized any of its credit facilities.

## **3. Allowance for Impaired Loans**

The activity in the allowance for impaired account has been as follows:

	<b><u>2010</u></b>	<b><u>2009</u></b>
Balance, beginning of year	\$ 87,000	\$ 105,000
Net Write-offs and recoveries during the year	(2,968)	
Reduction of allowance	<u>          </u>	<u>(18,000)</u>
Balance, end of year	<b><u>\$ 84,032</u></b>	<b><u>\$ 87,000</u></b>

The Credit Union writes off to the allowance for loan impairment all amounts known not to be collectable.

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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As at the fiscal year end the Credit Union calculates an allowance for loan impairment on an individual account basis in accordance with the guidelines set out in By-law #6 of the Deposit Insurance Corporation of Ontario (DICO). Initially, an amount is calculated for each loan more than 90 days in arrears from the original date of advancement, by applying specific percentages, varying with the extent of overdue payments, to the portion of the principal balance not covered by the realizable value of collateral and for all uncollected interest not received. In addition, allowance is made for those loans, not in arrears, but the collection of which is doubtful.

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.

The Board of Directors has passed a resolution to establish a secondary allowance to approximate the DICO peer ratio category covering the Ontario system. At April 30, 2010, the allowance for doubtful loans conforms to this resolution.

As at April 30, 2010 there were 2 loans 90 days or more in arrears to the contract. Irregular or reduced payments were being received on each of these loans.

#### 4. Investments

	<u>2010</u>	<u>2009</u>
<b><u>Loans and receivables</u></b>		
Central 1 Credit Union Liquidity reserve deposit	\$ 668,465	\$ 707,085
Accrued interest	<u>2,075</u>	<u>1,231</u>
	<u>670,540</u>	<u>708,316</u>
<b><u>Held for Trading</u></b>		
Short term deposits	1,150,000	2,200,000
Accrued interest	3,758	10,225
ABCP 2008 Limited Partnership	<u>49,006</u>	<u>50,962</u>
	<u>1,202,764</u>	<u>2,261,187</u>
<b><u>Available for sale</u></b>		
Credit Union Central of Ontario Shares	18,887	18,887
Central 1 Class A shares	25,971	27,510
Central 1 Class E shares	<u>39,600</u>	<u>39,600</u>
	<u>84,458</u>	<u>85,997</u>
	<b><u>\$ 1,957,762</u></b>	<b><u>\$3,055,500</u></b>

# CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2010

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## **Central 1 Credit Union Liquidity Reserve Deposit**

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1 an amount equal to 7% of the Credit Union's total assets updated at each calendar quarter end. The liquidity reserve deposit bears interest at a rate, which is fixed periodically and is callable by the Credit Union on 90 days notice.

The Credit Union has complied with these requirements.

## **Central 1 Credit Union Shares**

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

As a condition of maintaining membership in Central 1, the Credit Union is required to maintain a minimum level of investment in the shares of Central 1. The minimum level of investment is determined annually based on the Credit union's total assets at the end of the year. The merger was affected through the acquisition of CUCO's net assets and the Credit Union has received the Class A and class E shares in Central 1.

No market value exists for the shares of CUCO or Central 1. The shares may be surrendered upon withdrawal from membership. The proceeds and terms of payment are to be negotiated at that time.

## **ABCP 2008 Limited Partnership**

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership ("ABCP LP"), to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. The Credit union owns ABCP LP units equal to .056004% of the partnership. A board of directors that was elected by the unit holders governs the ABCP LP.

The Credit union carries its investment in the ABCP LP at its share of the fair market value of the partnership as estimated by the general partner. Approximately 80% of the ABCP held in the partnership is subject to a court-sanctioned restructuring process known as the "Montreal Accord". The remaining investment is in APEX Trust, which has been restructured by the sponsor. Both restructurings involved replacing the original short-term ABCP with various classes of long-term notes.

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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The notes bear a variety of interest rates between 0% and 5% with most floating with a premium or discount to the Banker's Acceptance rate.

As at December 31, 2009, the ABCP LP determined or estimated the principal characteristics of its notes, including the interest rate, maturity date and credit rating. It then estimated the yield that a potential investor would require to purchase each class of notes. The ABCP LP used this information to calculate a fair value for each class of notes. Based on a sensitivity analysis of the assumptions used, the expected yield required by potential investor remains the most significant assumption included in the fair value estimate.

The Credit Union has accepted its proportionate share of the ABCP LP's audited net asset value of \$88.6 million as the value of its investment at year-end. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

As at April 30, 2010, the ABCP LP's unaudited net asset value had increased to \$95 million and the net asset value per share had increased to \$.071455. Based on this valuation, the market value of the Credit Union's investment would have amounted to \$53,454.

### 5. Fixed Assets

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & fixtures	\$ 48,732	\$ 47,084	\$ 1,648
Computer	<u>21,073</u>	<u>16,840</u>	<u>4,233</u>
	<u><b>\$ 69,805</b></u>	<u><b>\$ 63,924</b></u>	<u><b>\$ 5,881</b></u>

### 6. Members' Deposits

Deposits may be withdrawn on demand, subject to the discretion of the Board of Directors who may require thirty day's notice.

# CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2010

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## 7. Membership Shares

Membership shares are subscribed for at a par value of \$5 per share. A member is required by By-law of the Credit Union to maintain a minimum of ten shares as a condition of membership in the Credit Union. Amounts paid for or on account of permanent membership shares may be withdrawn on demand subject to the discretion of the Board of Directors who may require sixty days notice. These shares are redeemable only when the member withdraws from membership in the Credit Union. Under sub-section 51(12) of the new act membership shares held as a condition of membership are not insured by the Deposit Insurance Corporation of Ontario (DICO).

At April 30, 2010 there were 1431 members at \$50.00 per member.

## 8. Share Dividends and Loan Rebates

The Board of Directors has declared and the Credit Union has accrued a 1.5 % dividend on the share savings accounts of \$13,719 (2009 – 0.25% \$2,751) and a loan interest rebate of 1.5% - \$4,571 (2009-NIL). The actual dividend will be calculated as at April 30, 2010 and paid in the 2010 fiscal year and may differ from the accrual.

The total tax effect of these dividends is \$3,109 (2009 - \$495)

## 9. Regulatory Capital

The Credit Union Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at 5% of total assets. As of February 1, 2009, Credit Unions were reclassified as either Class 1 or Class 2. A Class 2 credit union is generally regarded to have assets greater than \$50 million and issues commercial loans. CN (London) Credit Union Limited is designated a Class 1 Credit Union for classification purposes. As a Class 1 credit union, it is required to maintain adequate regulatory capital of at least 5% of its assets and no longer has to calculated risk-weighted assets as part of its regulatory capital.

The Credit Union is in compliance with the Act regarding regulatory capital as indicated by the table below:

	<b><u>2010</u></b>
Membership share capital	\$ 71,550
Statutory reserve	510,000
Retained earnings	<u>182,172</u>
	<b><u>\$ 763,722</u></b>
% Of Total Assets	<b>8.02%</b>

## CN (LONDON) CREDIT UNION LIMITED

Notes to the Financial Statements

April 30, 2010

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### **10. Restricted Party Transactions**

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

At April 30, 2010, the aggregate values of interest bearing personal and mortgage loans approved to directors, committee members and officers and their related parties consisted of 8 loans and mortgages totaling **\$283,296**. These loans and mortgages are made on the same terms and conditions as are transacted with other members. At April 30, 2010, there was no allowance for loan impairment required in respect of these loans and mortgages.

### **11. Fair Value of Financial Instruments**

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing partners who are under no compulsion to act. The estimated fair values of the Credit Union's financial instruments and the valuation techniques and assumptions are set out below. The valuations may vary significantly based on the judgment used in estimating the amount and the timing of future cash flows. As a result, the estimated fair values are not necessarily comparable across different organizations and may not be realizable. The estimation of fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	Book Value	Estimated Fair Value	Difference
Assets			
Cash resources	\$ 592,493	\$ 592,493	-
Investments	1,957,762	1,957,762	-
Loans to members	6,996,455	6,996,455	-
Other			
Liabilities			
Members deposits	8,697,374	8,697,374	-
Other			

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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

1. The fair value of cash resources is assumed to approximate their book value due to their short-term nature.
2. The fair value of investments are based on quoted market values
3. The estimated value of variable rate loans and deposits are assumed to be equal to book value as the interest rates reprice to market on a periodic basis.
4. The estimated fair value of fixed rate loans and deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks. The Credit Union only had fixed rated loans and deposits which lasts for a term of 1 year and, as such, their estimated fair value would also approximate their book value.

## **12. Nature and Extent of Risks Arising From Financial Instruments**

### **Liquidity risk**

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

The Credit Union's liquidity management policy outlines the processes for managing liquidity risk, including maintaining high quality liquid investments, maintaining a credit facility with Central 1 (see Note 2) and monthly reporting to the Board of Directors regarding the Credit Union's liquidity level, in relation to the statutory minimum of 5%. In addition, the Credit Union continually monitors cash flows, the significance of large deposits and loan commitments relative to its liquidity.

The liquidity ratio represents the ratio of assets qualifying as liquid assets under the Act to the sum of members' deposits and borrowings. The Credit union has established an internal policy of maintaining a ratio between 12% and 30%. At April 30, 2010, the liquidity ratio is 28 % (2009-33%), which is in compliance with the policy.

	<u>2010</u>	<u>2009</u>
Cash resources	\$ 592,493	\$ 188,937
Short-term deposits	1,150,000	2,200,000
Liquidity reserve with Central 1	<u>668,465</u>	<u>707,085</u>
	<b><u>\$ 2,410,958</u></b>	<b><u>\$ 3,096,022</u></b>

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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### **Credit Risk**

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

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

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

The Credit union's exposure to the risk of loss on impaired loans is set out in Note 3.

### **Interest rate risk**

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

The Credit Union's interest rate risk policy sets out the processes for managing interest rate risk, including establishing a limit of exposure to interest rate fluctuations, stating the method used to measure interest rate risk, and reporting to the board of directors the earnings at risk.

# CN (LONDON) CREDIT UNION LIMITED

## Notes to the Financial Statements

April 30, 2010

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The table below summarizes amounts by maturity dates and effective interest rates for the following on-balance sheet financial instruments. Rounded to \$000's

	<u>Variable</u> <u>Rate</u>	<u>Less than</u> <u>One Year</u>	<u>One to</u> <u>Five years</u>	<u>Non-rate</u> <u>Sensitive</u>	<u>Total</u>	<u>Effective</u> <u>Interest rate</u>
Cash resources				\$ 592	\$ 592	
Investments		\$ 1,874		84	1,958	1.05%
Loan to members	<u>\$ 6,699</u>	<u>297</u>			<u>6,996</u>	3.93%
Total	<u>6,699</u>	<u>2,171</u>		<u>676</u>	<u>9,546</u>	
Members deposits	7,137	138		1,422	8,697	0.46%
Members shares				71	71	1.50%
Total	<u>7,137</u>	<u>138</u>		<u>1,493</u>	<u>8,768</u>	
Matching Gap	<u>\$ (438)</u>	<u>\$ 2,033</u>		<u>\$ (817)</u>	<u>\$ 778</u>	

### 13. Commitments

The Credit Union negotiated a lease in 2006 at an annual rental of \$6,709 plus additional rent of \$12,128 for maintenance, parking, utilities and taxes. The lease terminates February 28, 2011 and the Credit Union has the right to renew the lease for a further 5 years at a rate to be determined at that time. The lease requires minimum lease payments plus operating and maintenance costs as follows:

2010	\$12,558
2011	<u>3,139</u>
	<u>\$15,697</u>

# CN (LONDON) CREDIT UNION LIMITED

## Schedule of administrative expenses

For the year ended April 30, 2010

	<u>2010</u>	<u>2009</u>
Administrative Expenses		
Annual meeting	\$ 3,308	\$ 2,680
Bad debt (recoveries) expense		(2,212)
Bank charges & interest	5,136	4,592
Bonding insurance	13,374	11,454
Computer costs	20,603	20,196
Depreciation	1,341	896
Education & conferences	1,422	2,867
FSCO fees	363	485
Insurance	22,147	20,589
Internet expense	1,474	1,803
League dues (CUCO)	4,487	7,637
Member card expense	11,375	12,960
Member deposit insurance (DICO)	8,760	8,303
Member relation or promotion	3,495	4,701
Miscellaneous	6,106	5,655
Office expenses	9,198	6,435
Postage	3,926	6,169
Professional services	14,344	14,511
Rent	18,837	17,447
RRSP administrative fees	5,341	5,214
Telephone	<u>741</u>	<u>707</u>
	<b><u>\$155,778</u></b>	<b><u>\$153,089</u></b>