

**LONDON CIVIC EMPLOYEES'  
CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED**

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**DECEMBER 31, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Members of  
**London Civic Employees' Credit Union Limited:**

We have audited the accompanying financial statements of London Civic Employees' Credit Union Limited, which comprise the balance sheet as at December 31, 2010, and the statements of operations and comprehensive income and retained 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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, the financial statements present fairly, in all material respects, the financial position of London Civic Employees' Credit Union Limited as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Mississauga, Ontario  
January 13, 2011**

**Retford Lane Bates LLP  
Licensed Public Accountants**

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## BALANCE SHEET

AS AT DECEMBER 31, 2010

	2010	2009
<b>ASSETS</b>		
Cash resources	\$ 765,406	\$ 722,071
Investments (Note 3)	3,194,731	3,040,263
Loans to members (Note 4 and 5)	35,114,236	33,694,678
Other assets (Note 6)	300,232	293,787
Capital assets (Note 7)	271,399	316,370
	<b>\$ 39,646,004</b>	<b>\$ 38,067,169</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>Liabilities</b>		
Member deposits (Note 8)	\$ 36,562,097	\$ 35,180,495
Other liabilities (Note 9)	364,507	357,660
Member shares (Note 10)	294,098	268,156
	<b>37,220,702</b>	<b>35,806,311</b>
<b>Retained earnings</b>	<b>2,425,302</b>	<b>2,260,858</b>
	<b>\$ 39,646,004</b>	<b>\$ 38,067,169</b>

Commitments (Notes 4 and 15)

Approved by the Board

\_\_\_\_\_

Director

\_\_\_\_\_

Director

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
<b>Interest income</b> (Note 12)		
Member loans	\$ 1,810,329	\$ 1,737,431
Investment income	56,642	80,006
	<u>1,866,971</u>	<u>1,817,437</u>
<b>Interest expense</b>		
Member deposits (Note 13)	641,605	702,783
Distribution to members	30,003	27,600
External borrowings	1,622	7,784
	<u>673,230</u>	<u>738,167</u>
<b>Net interest income</b>	<u>1,193,741</u>	<u>1,079,270</u>
<b>Provision for impaired loans</b> (Note 5)	<u>13,126</u>	<u>14,195</u>
<b>Net interest income after loan losses</b>	<u>1,180,615</u>	<u>1,065,075</u>
<b>Other income</b>		
Loss on interest rate swap agreements	-	(4,104)
Other income	212,370	225,435
	<u>212,370</u>	<u>221,331</u>
<b>Net interest and other income</b>	<u>1,392,985</u>	<u>1,286,406</u>
<b>Operating expenses</b>		
Administration ( <i>Schedule</i> )	432,117	389,126
Deposit insurance	33,212	30,349
Occupancy	151,232	130,196
Salaries and benefits	624,660	581,686
	<u>1,241,221</u>	<u>1,131,357</u>
<b>Income before other adjustments</b>	<u>151,764</u>	<u>155,049</u>
<b>Other adjustments</b>		
Gain on ABCP 2008 Limited Partnership (Note 3)	45,226	-
<b>Income before income taxes</b>	<u>196,990</u>	<u>155,049</u>
<b>Income taxes</b>		
Current	29,646	15,724
Future	2,900	9,900
	<u>32,546</u>	<u>25,624</u>
<b>Net income and comprehensive income for the year</b>	<u>164,444</u>	<u>129,425</u>
<b>Retained earnings, beginning of the year</b>	<u>2,260,858</u>	<u>2,131,433</u>
<b>Retained earnings, end of the year</b>	<u>\$ 2,425,302</u>	<u>\$ 2,260,858</u>

See accompanying notes to the financial statements

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 164,444	\$ 129,425
Adjustments for:		
Amortization	55,383	62,534
Provision for impaired loans (Note 5)	13,126	14,195
Distribution to members	30,003	27,600
Loss on interest rate swap agreements	-	4,104
Gain on ABCP 2008 Limited Partnership (Note 3)	(45,226)	-
Future income taxes	2,900	9,900
Gain on disposal of capital assets	(264)	-
	<u>220,366</u>	<u>247,758</u>
Changes in non-cash working capital balances:		
Other current assets	(6,445)	60,690
Other liabilities	3,946	40,984
	<u>217,867</u>	<u>349,432</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(10,647)	(29,931)
Proceeds on disposal of capital assets	500	-
Loans to members - net	(1,432,684)	(3,454,782)
Investments	(109,242)	31,359
	<u>(1,552,073)</u>	<u>(3,453,354)</u>
<b>Cash flows from financing activities</b>		
Member deposits	1,381,602	2,893,598
Member shares	(4,061)	(29,830)
	<u>1,377,541</u>	<u>2,863,768</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>43,335</b>	<b>(240,154)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>722,071</b>	<b>962,225</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 765,406</b>	<b>\$ 722,071</b>
<b>INTEREST AND INCOME TAXES PAID:</b>		
Interest paid	\$ 666,133	\$ 812,976
Income taxes paid (net of refunds)	\$ 32,685	\$ (10,846)

See accompanying notes to the financial statements

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### Nature of business

London Civic Employees' Credit Union Limited (the "Credit Union") is a financial institution incorporated in Ontario under the Credit Unions and Caisses Populaires Act, 1994 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 provides financial products and services to members throughout Ontario.

### 1. Significant accounting policies

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

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

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

#### Use of estimates

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

#### Investments

Investments designated as 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.

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.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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

#### Capital assets

Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method applied to the cost of the assets, at annual rates based on their estimated useful lives as follows:

Asset	Rate
Furniture and equipment	20%
Computer hardware	33.3%
Computer systems	20%
Computer software	33.3%
Leasehold improvements	Amortized over remaining term of lease including the first renewal term

#### Loans to members

Loans to members are stated at amortized cost. Interest income is recorded using the effective interest rate method over the terms of the loans. Loan 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 or interest. A loan is also classified as impaired when interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection. Fully secured loans are classified as impaired after a delinquency period of 180 days.

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

#### Allowance for impaired loans

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

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

#### **Member deposits**

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

#### **Member shares**

The Credit Union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of member shares 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 shares are reported in the statement of operations as a financial expense.

#### **Translation of foreign currencies**

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

#### **Derivative financial instruments**

The Credit Union enters into equity-linked purchase options to manage exposure to stock market risk. The Credit Union does not enter into derivative financial instruments for trading or speculative purposes.

When derivatives are used to manage exposure, the Credit Union determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge or a cash flow hedge of a specifically identified group of assets or liabilities. The Credit Union assesses, both at the inception and over the term of the hedge, whether these derivatives are highly effective in offsetting changes in fair value or cash flows of hedged assets and liabilities.

Derivatives that do not qualify for hedge accounting are carried at fair value on a gross basis in assets and liabilities with changes in fair value recorded in other income.

Equity-linked purchase options are used to reduce the exposure to stock market risk in the returns associated with the index-linked deposits issued to members. The premiums paid for these options are deferred in members' deposits and amortized to interest expense on members' deposits over the life of the options.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### 2. Future changes in accounting policy

In March 2009, the Canadian Accounting Standards Board reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian GAAP 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. As a credit union, we are included in the definition of a publicly accountable enterprise and, as such, we will be required to prepare the December 31, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

We have assessed the differences between our current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. Our assessment has included the potential impact of the conversion effort on our 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 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011 and, therefore, applicable to our first IFRS financial statements, including comparatives and opening IFRS balance sheet. Our IFRS project plan includes activities to ensure we monitor these changes. We have determined that any IFRS transitional adjustment will not negatively impact either retained earnings or capital.

### 3. Investments

	2010	2009
<b><u>Loans and receivables</u></b>		
Central 1 liquidity reserve deposit	\$ 2,741,808	\$ 2,624,287
Accrued interest	22,084	24,574
	<b>2,763,892</b>	<b>2,648,861</b>
<b><u>Held for trading</u></b>		
ABCP 2008 Limited Partnership	166,234	129,625
<b><u>Available for Sale</u></b>		
Credit Union Central of Ontario shares	1,086	46,046
Central 1 Class A shares	89,719	86,931
Central 1 Class E shares	173,800	128,800
	<b>264,605</b>	<b>261,777</b>
	<b>\$ 3,194,731</b>	<b>\$ 3,040,263</b>
<b>Market Value</b>	<b>\$ 3,209,800</b>	<b>\$ 3,075,244</b>

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### 3. Investments (*continued*)

#### **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 at any time.

#### **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 shares of Central 1. The minimum level of investment is determined annually based on the Credit Union's total assets at year end. 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 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 the 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 0.1814% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

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

As at December 31, 2010, the ABCP LP determined or estimated the principal characteristics of its notes, including the interest rate, maturity date and credit rating. It then estimated the yield that a potential investor would require to purchase each class of notes. The ABCP LP used this information to calculate a fair value for each class of notes. Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate.

The Credit Union has accepted its proportionate share of ABCP LP's net asset value 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.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

### 4. Loans to members

	2010	2009
Mortgages	\$ 27,972,120	\$ 25,740,413
Personal	7,194,531	8,038,540
Accrued interest	22,059	22,153
	<b>35,188,710</b>	33,801,106
Less allowance for impaired loans (Note 5)	74,474	106,428
	<b>\$ 35,114,236</b>	\$ 33,694,678

The loan classifications set out above are as defined in the regulations to the Act.

Residential mortgage loans are repayable in monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty-five years.

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

As at December 31, 2010, the Credit Union was committed to the issuance of mortgage loans to members in the aggregate amount of \$320,000 (2009 - \$nil).

As at December 31, 2010, the approved and unused line of credit limits amount to \$7,535,227 (2009 - \$6,992,297).

### 5. Allowance for impaired loans

	2010	2009
Balance at beginning of year	\$ 106,428	\$ 112,504
Loans written off	(61,954)	(31,369)
Loans recovered	16,874	11,098
	<b>61,348</b>	92,233
Provision charged to operations	13,126	14,195
	<b>\$ 74,474</b>	\$ 106,428

The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. Additionally, the Credit Union has a maximum limit on the value of loans to an individual and connected parties. The maximum amount varies depending on the type of loan.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with DICO's by-law governing such allowances.

	Allowance for impaired loans balance		Aggregate impaired loans	
	2010	2009	2010	2009
Mortgages	\$ -	\$ -	\$ -	\$ -
Personal	74,474	106,428	67,873	90,169
	<b>\$ 74,474</b>	<b>\$ 106,428</b>	<b>\$ 67,873</b>	<b>\$ 90,169</b>

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of the loans that are past due, but not considered impaired.

	2010	2009
Mortgages	\$ 87,291	\$ 203,732
Personal	3,361	42,588
Total	<b>\$ 90,652</b>	<b>\$ 246,320</b>

### 6. Other assets

	2010	2009
Other receivables	\$ 25,677	\$ 20,750
Prepaid expenses	26,065	31,236
Future income taxes	300	3,200
Index-linked derivative contract	248,190	238,601
	<b>\$ 300,232</b>	<b>\$ 293,787</b>

### 7. Capital assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Furniture and equipment	\$ 109,016	\$ 94,251	\$ 14,765	\$ 26,608
Computer equipment	299,080	281,515	17,565	29,904
Leasehold improvements	353,254	114,185	239,069	259,858
	<b>\$ 761,350</b>	<b>\$ 489,951</b>	<b>\$ 271,399</b>	<b>\$ 316,370</b>

Amortization expense for the year amounted to \$55,383 (2009 - \$62,534).

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

### 8. Member deposits

	2010	2009
Chequing accounts	\$ 1,742,914	\$ 1,705,269
Savings accounts	11,096,359	11,180,686
Term deposits	7,616,646	7,513,902
Registered savings plans	14,506,718	13,173,739
Registered income funds	1,345,012	1,357,148
Accrued interest	254,448	249,751
	<b>\$ 36,562,097</b>	<b>\$ 35,180,495</b>

### Registered plans

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

### Index-linked deposits

The Credit Union has issued and outstanding \$3,577,703 (2009 - \$4,227,193) of Index-Linked products to its members. These deposits have maturities of 3 and 5 years and pay interest to the depositors, at the end of the respective terms, based on the performance of the S&P / TSX 60 Index.

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the S&P / TSX 60 Index associated with these products. The Credit Union has paid Central 1 an amount discounted over the term of the deposit to fully fund the Credit Union's liability to Central 1. At the end of the term of the deposit, Central 1 pays to the Credit Union an amount equal to the earnings that will be paid to the depositors based on the performance of the S&P / TSX 60 Index.

### 9. Other liabilities

	2010	2009
Accounts payable and accrued charges	\$ 105,080	\$ 102,374
Income taxes payable	11,237	16,685
Index-linked derivative contract	248,190	238,601
	<b>\$ 364,507</b>	<b>\$ 357,660</b>

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

### 10. Member shares

	2010	2009
Member shares	\$ 189,800	\$ 192,250
Patronage shares	74,298	48,306
Accrued patronage rebates and dividends	30,000	27,600
	<b>\$ 294,098</b>	<b>\$ 268,156</b>

The Credit Union has 3,968 (2009 - 3,994) members. As a condition of membership, each adult member and business must hold 10 shares and youths (under 18 years of age) must hold 5 shares at the issue price of \$5 each. Shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements and at the discretion of the directors who may require notice.

#### Patronage rebates and dividends

Although members' shares are regarded as capital for regulatory purposes, they impose a contractual obligation on the Credit Union to pay cash in certain defined future circumstances. They have, therefore, been classified as liabilities for purposes of these financial statements. Correspondingly, dividends paid on these shares have been classified as an expense in the statement of operations and comprehensive income and retained earnings.

Members are eligible to receive patronage rebates based on annual interest paid on their borrowings and on annual interest received on certain of their deposits. Members are also eligible to receive dividends on patronage shares.

2010 patronage rebates and dividend expense is comprised of the following:

	2010	2009
1.40% (2009 - 1.35%) bonus interest on interest earned on savings, chequing and non-registered term deposits (minimum bonus \$5)	\$ 2,615	\$ 3,799
1.40% (2009 - 1.35%) rebate of loan interest paid	23,673	21,847
5.00% (2009 - 4.05%) dividend on patronage shares held December 31, 2010	3,715	1,954
	<b>\$ 30,003</b>	<b>\$ 27,600</b>

The bonus interest, loan interest rebate and dividends will be deposited into the members accounts.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### 11. Capital adequacy

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

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

In accordance with the requirements of the Act and accompanying regulations, credit unions are required to maintain sufficient capital to meet the following test:

Leverage test:

Regulatory capital, primarily comprising of membership shares, any other class of qualifying capital that may be issued, retained earnings and the non-specific/general allowance for impaired loans, must amount to at least 5.0% of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 5.5% of total assets.

As at December 31, 2010, the Credit Union is in compliance with the minimum statutory requirements for regulatory capital, as outlined in the following table:

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

	2010	2009
<b><u>Tier 1 capital</u></b>		
Member shares	\$ 189,800	\$ 192,250
Retained earnings	2,425,302	2,260,858
Non-redeemable portion of patronage shares	104,298	75,906
<b>Total Tier 1 capital</b>	<b>2,719,400</b>	<b>2,529,014</b>
<b><u>Tier 2 capital</u></b>		
Non-specific allowance for impaired loans	25,198	17,530
<b>Total Regulatory Capital</b>	<b>\$ 2,744,598</b>	<b>\$ 2,546,544</b>
<b>Leverage test ratio:</b>	<b>6.9%</b>	<b>6.7%</b>

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

### 12. Interest income

Interest income is generated as follows:

	2010	2009
Mortgage loans	\$ 1,214,627	\$ 1,149,449
Personal loans	595,702	587,982
Member loans	1,810,329	1,737,431
Investments classified as loans and receivables	52,529	66,275
Investments classified as available for sale	4,113	13,731
Financial assets other than those held for trading	1,866,971	1,817,437
Investments classified as held for trading	-	-
	\$ 1,866,971	\$ 1,817,437

### 13. Interest expense on member deposits

Interest expense on member deposits is generated as follows:

	2010	2009
Demand	\$ 86,925	\$ 80,601
Term	176,675	222,793
Registered savings plans	346,338	361,744
Registered income funds	31,667	37,645
	\$ 641,605	\$ 702,783

### 14. Income taxes

The Credit Union's basic statutory tax rate is approximately 16%. Any future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities and their values for tax purposes.

### 15. Commitments

The Credit Union has entered into an agreement to lease office space for a ten year term expiring March 31, 2015. The Credit Union has the option to renew the lease for two further seven year terms. The lease requires minimum lease payments plus operating and maintenance costs estimated as follows:

2011	\$ 104,751
2012	104,751
2013	107,294
2014	108,141
2015	<u>27,035</u>
	<u>\$ 451,972</u>

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### 16. Restricted party transactions

As at December 31, 2010, the aggregate value of interest-bearing personal and mortgage loans approved to directors, officers, and their related parties totalled \$145,971 (2009 - \$25,621). There was no allowance for impaired loans required in respect of these loans as at December 31, 2010.

Restricted Party is defined to include a person, and the person's relative, spouse, or relative of the spouse, who has been a director, officer or committee member in the preceding twelve months, and corporations in which the person owns more than 10% of the voting shares.

### 17. Additional disclosures required by the Act

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

### 18. 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 parties 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 judgement used in estimating the amount and timing of future cash flows. As a result, the estimated fair values are not necessarily comparable across different organizations and may not be realizable. The estimation of fair values are based on market conditions at a specific point in time and may not be reflective of future fair values.

	Book value	Estimated fair value	2010 Difference	2009 Difference
<b>Assets</b>				
Cash resources	\$ 765,406	\$ 765,406	\$ -	\$ -
Investments	3,194,731	3,209,800	<b>15,069</b>	34,981
Loans to members	35,114,236	35,397,935	<b>283,699</b>	309,815
Other	248,190	248,190	-	-
<b>Liabilities</b>				
Member deposits	(36,562,097)	(36,725,599)	<b>(163,502)</b>	(432,560)
Other	(248,190)	(248,190)	-	-

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

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

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### 19. 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 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 Credit Union has an available credit facility of \$4,490,000 to cover a shortfall in cash resources due to unanticipated volume in clearings. This facility includes a line of credit of CDN \$480,000, US \$10,000, a term loan of \$1,413,358, an extraordinary term loan of \$1,000,000 and a standby credit facility of \$1,586,642. This facility is secured by a general security agreement and an assignment of book debts and bears interest at 0.8%. At December 31, 2010, the facility was not utilized.

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 7% and 16%. At December 31, 2010, the liquidity ratio is 9.7% (2009 - 9.7%) which is in compliance with policy.

The assets that are eligible for liquidity purposes are as follows:

	2010	2009
Cash resources	\$ 765,407	\$ 722,071
Liquidity reserve deposits with Central 1	2,741,807	2,624,288
Other amounts	25,612	9,088
	<b>\$ 3,532,826</b>	<b>\$ 3,355,447</b>

#### 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.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

### 19. Nature and extent of risks arising from financial instruments *(continued)*

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

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

The Credit Union's exposure to the risk of loss on impaired or potentially impaired loans is set out in Note 5.

#### Interest rate risk

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

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

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

	Variable Rate	Less than one year	One to five years	Non-rate Sensitive	Total	Effective Interest Rate
Cash resources	\$ 509,234	\$ -	\$ -	\$ 256,172	\$ 765,406	0.71%
Investments	-	1,626,108	1,137,783	430,840	3,194,731	1.42%
Loans to members	19,883,746	1,926,140	13,304,350	-	35,114,236	5.04%
<b>Total</b>	<b>20,392,980</b>	<b>3,552,248</b>	<b>14,442,133</b>	<b>687,012</b>	<b>39,074,373</b>	
Member deposits	14,460,369	14,668,379	7,273,962	159,387	36,562,097	1.82%
Member shares	104,298	-	-	189,800	294,098	1.42%
<b>Total</b>	<b>14,564,667</b>	<b>14,668,379</b>	<b>7,273,962</b>	<b>349,187</b>	<b>36,856,195</b>	
Matching gap	\$ 5,828,313	\$ (11,116,131)	\$ 7,168,171	\$ 337,825	\$ 2,218,178	

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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### 19. Nature and extent of risks arising from financial instruments *(continued)*

#### Foreign currency exchange risk

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

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

Net foreign exchange gains of \$14,159 (2009 - \$12,884) have been included in other income on the statement of income and comprehensive income and retained earnings for the year ended December 31, 2010.

### 20. Subsequent events

Subsequent to the year end, the Credit Union received the Certificate of Amendment approving the name change from London Civic Employees' Credit Union Limited to Boomerang Credit Union Limited.

# LONDON CIVIC EMPLOYEES' CREDIT UNION LIMITED

## SCHEDULE OF EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
<b>Administration</b>		
Administration fees	\$ 11,584	\$ 11,688
Advertising and promotion	78,346	52,027
Amortization	34,594	41,745
Annual meeting	833	2,016
Bank and clearing charges	65,271	69,339
Board and committee	15,780	13,345
Bonding	36,115	25,282
Data processing	58,863	45,339
Education and training	11,692	7,984
League dues	9,621	10,425
Loan administration	5,048	6,761
Office	61,836	68,603
Professional fees	33,563	25,450
Telephone	7,364	5,287
Travel	1,607	3,835
	\$ 432,117	\$ 389,126