

# ANNUAL REPORT 2008

## Membership is Ownership

THE SUCCESS OF YOUR CREDIT UNION IS IN YOUR HANDS



Helping You Reach a Brighter Financial Future

# TCSBECU Annual Report 2008

## TCSBECU BOARD OF DIRECTORS



Horace E. Moore  
President



René Jansen in de Wal  
Vice President



Paula Chambers  
Corporate Secretary



Lewis Thomas  
Director



Waldo Aristizábal  
Director



Althea Parsons  
Director



Courtney Doldron  
Director

## TCSBECU STAFF



Sonia Coombs  
General Manager



Faye Castle  
Branch Administrator



Teresa Lizak  
Operations Officer  
*(On Leave)*



Rita Basque  
Senior Loans Officer



Charmaine Coy  
Loans Officer



Amanda Matthews  
Senior Member  
Service Representative



Kimberly Kavanagh  
Member Service  
Representative

# TCSBECU Annual Report 2008

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## REPORT OF THE GENERAL MANAGER



2008 has been a challenging year for all Credit Unions. It will be remembered as a year of uncertainty for the Canadian economy and financial markets. Across every sector, industries are struggling to find ways to stabilize their businesses and secure their futures.

Our Credit Union is on solid ground despite the many challenges we faced in 2008. With a loyal and devoted membership, committed employees and a dedicated and supportive Board

of Directors we have accomplished many of our 2008 goals. I am honoured to present the management report to the membership of the Toronto Catholic School Board Employees Credit Union.

During 2008, total assets increased to \$24,149,461 from \$22,971,692. This represents an increase of \$1,177,769 or 5.13% which was the most significant growth we have realized in ten years. This positive increase in assets was mainly a result of the introduction of the new Super Savings Account.

Although our net income was \$2,554 compared to \$78,202 in 2007, it was a direct result of the \$34,911 write down which was our share of the investment in Asset Backed Commercial Paper by Credit Union Central of Ontario. We were also required to write down an additional \$10,523. The Canadian Prime Rate of Interest was 5.75% in January compared to 3.00% in December. This sharp decrease in interest rates had a major impact on our interest income.

### **TCSBE Credit Union accomplished these significant results in 2008.**

- Implemented a Super Savings Account that rewards members by providing a higher rate of return
- Introduced a Tax Free Savings Account in a variety of terms
- Upgraded the Life Events section of our website to include many interactive systems and calculations
- Developed a comprehensive Business Plan for 2009 to equalize any impact of future developments, for the best advantages of our members
- Updated all Credit Union policies for maximum effectiveness

### **OUR 2009 COMMITMENT**

- We are positioning ourselves to include card Chip technology to better safeguard our members' electronic transactions
- E-statements will be rolled out in the very near future for your convenience
- Continue our partnership with The Angel Foundation For Learning, as well as our focus on community initiatives
- Development and delivery of a member survey to better understand your needs
- Commitment to building a high performing member service team
- Continue our school visits and presentations on the benefits of Credit Union membership

We look forward to the future with cautious optimism and continue to focus on our core values. As we strive to meet the challenges of 2009 head on, we have put strategies in place to reduce our costs and grow our business.

Management and your Board of Directors continue to monitor the financial services sector carefully and we are committed to taking the steps necessary to ensure your Credit Union's success in the future. We continue to take a prudent and conservative approach to our operations and value the trust you place in us.

I would like to give credit to the many people who have contributed to our 2008 success and for choosing the TCSBECU as your first choice financial institution.

Thank you to our Members, Directors, Management and Staff for your continued support.

Sincerely,  
**Sonia Coombs,**  
General Manager

## REPORT OF THE BOARD OF DIRECTORS

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Notwithstanding the current, unprecedented economic climate, the Toronto Catholic School Board Employees Credit Union is committed to providing continued excellent service to our members. We recognize that our membership is the foundation of our business and the source of our success.

Thanks to our General Manager and her team, financial management in 2008 has been consistent, exemplary and prudent. Member deposits have increased by

7.8%. Our asset base has increased by more than 1.1 million dollars. We have increased loan revenue by .06%. Mortgages now represent approximately 88% of our total loan portfolio. However, falling interest rates, given the current economic climate, have seriously eroded our financial margins. In addition, our inherited partnership in Asset Backed Commercial Paper Limited Partnership [to facilitate the merger of Credit Union Central of Ontario (CUCO) with Credit Union Central of British Columbia (CUCBC)] meant that we had a compulsory requirement to fund our proportionate share of initial capital outlay and absorb the ensuing write-downs, further affecting our bottom line.

No approval for annual income distribution to members was made for 2008 as a measure to remain in compliance with our Capital Management Policy. Your Board of Directors have further implemented some austerity measures to help our organization navigate through these difficult global economic times.

### OUR VISION FOR TOMORROW:

1. Dialogue with a similar bonded Credit Union to make available wealth management services to our membership
2. Increased marketing efforts to better serve more of the TCDSB community and increase our membership base

I would like to continue to applaud the efforts of our management and staff in helping our members reach a brighter financial future. I would also like to extend my personal thanks to a hard working Board of Directors.

We remain confident that the Toronto Catholic School Board Employees Credit Union will be able to successfully respond to the challenges of our times and seize the opportunities that lie ahead.

Sincerely,

**Horace E. Moore**

President/Chair, TCSBECU Board of Directors

## REPORT OF THE LOAN DEPARTMENT

On behalf of the Credit Union loan department, it is my pleasure to report on the lending activities during 2008.

A total of 265 loan applications were submitted for consideration as outlined below:

TYPE OF LOAN	NUMBER	DOLLAR VALUE
Personal	154	\$ 1,246,477.40
Lines of Credit	29	\$ 137,250.00
Mortgages	8	\$ 1,963,096.25
Meritlines®	31	\$ 3,247,107.28
Bridge Loans		\$ 0
<b>Total Approved</b>	<b>222</b>	<b>\$ 6,593,930.93</b>
<b>Declined</b>	<b>43</b>	

*Your Credit Union is autonomous and independent from all departments of the School Board and member confidentiality is strictly observed.*

### APPROVED LOANS

Applications are submitted for many and varied purposes, the most popular being debt consolidation, vehicle purchase/lease, vacation, education and home renovations/repairs.

The purpose and security offered are integral components of the evaluation process.

### DECLINED LOANS

The Credit Union has an obligation to protect members' deposits. We would like to assure members that each application is given fair

and careful consideration. Regrettably, a number of applications were still declined, due to credit weakness and undue risk to the Credit Union.

### DELINQUENT LOANS

At the end of fiscal year 2008 there were 8 (eight) personal loans in arrears greater than 90 days, for an aggregate total of \$86,614.57, with accrued interest owing of \$8,984.77.

### BANKRUPTCY ASSIGNMENT

Although every effort is made to ensure that loans granted are as risk free as possible, members' circumstances change and unfortunately some loans do become uncollectable.

We regret to report that there were 4 (four) bankruptcy assignments in 2008 for an aggregate total of \$ 32,052.84.

### WRITE OFF

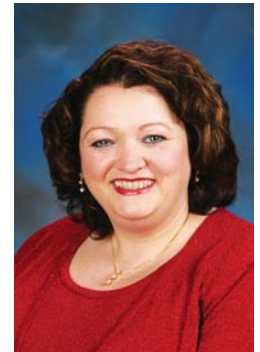
There were 2(two) personal loans written off in 2008, in the total amount of \$6,099.88.

### LOAN INTEREST REBATE

No loan interest rebate was approved for 2008, as a measure to remain in compliance with our Capital Management Policy.

### Loan Department

**Rita Basque**, Senior Loans Officer  
**Charmaine Coy**, Loans Officer



**Rita Basque**,  
Senior Loans Officer



**Charmaine Coy**, Loans Officer

## REPORT OF THE GOVERNANCE COMMITTEE



Dear TCSB Employees Credit Union Members:

This was the third year that I have had the pleasure of chairing the Governance Committee. Committee members were: **Horace Moore, ex officio; Courtney Doldron; Waldo Aristizábal; Lew Thomas; and myself, Paula Chambers, Chair.**

During the 2008 year, the Governance Committee met formally on October

20th and November 24th to review policy as outlined in the Credit Union Policy Binder. In addition, items for the Governance Committee were assigned during the Credit Union Strategic Planning Session of October 31st and November 1st.

After the Governance Committee met to discuss these issues, motions were presented to the full Board of Directors for voting and handed over to the appropriate committees, for implementation.

Respectfully Submitted,

**Paula Chambers**  
Chair of Governance Committee

## REPORT OF THE MARKETING COMMITTEE

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Welcome to our 37th Annual General Meeting.

It is my pleasure to present this report on behalf of the Marketing Committee.

The Marketing Committee meets regularly and meetings are attended by Board members and the General Manager. As the Chair of the Committee, my role and responsibility is to review our service and technology in respect to quality of service, service delivery, our reputation, and our

image. This is vital to ensure continued and future viability and growth.

We constantly research innovative ways to improve the Credit Union's image. Our practice of visiting schools to facilitate a short presentation on our products and services is ongoing and has been met with much positive feedback. As there is a great deal of potential, we would like to visit as many schools as possible to explain the

benefits of Credit Union membership and answer any questions for members and potential members. Please contact your Credit Union for further details on this valuable service.

The Board of Directors is again awarding a School Community Award through The Angel Foundation For Learning. Your assistance in making schools aware of this award would be greatly appreciated. The Credit Union continues in their commitment to community building among schools.

We once again solicit your help and assistance in encouraging your fellow employees and family members to join your Credit Union where "membership is ownership".

In closing, I would like to extend our sincerest appreciation to you, our members, and the Toronto Catholic District School Board Community for your continued loyalty and support.

Respectfully Submitted,  
**Waldo Aristizábal,**  
Chair of Marketing Committee

## REPORT OF THE HUMAN RESOURCES COMMITTEE

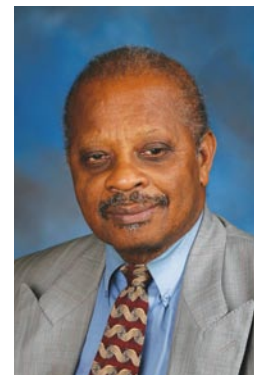
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The Human Resources Committee was formulated to address the annual evaluation of the General Manager based primarily on her successful completion of the Annual Business Plan.

The Committee in 2008 consisted of **Lew Thomas (Chair), Althea Parsons and Horace Moore**. We met initially to review and establish priorities for the General Manager's 2008 evaluation report. Subsequent meetings were held with the General Manager to discuss goals and later to suggest any growth indicators based on new financial management considerations. The full evaluation report was approved by the Board of Directors and subsequently received and endorsed by the General Manager.

The Business Plan for 2009 has been revisited to include application of measures to address the impact of the global financial crisis. This will form the basis of the Human Resource Committee's 2009 assessment considerations.

Respectfully Submitted,  
**Lew L. Thomas,**  
Chair of Human Resources Committee



## REPORT OF THE AUDIT COMMITTEE



The Audit Committee is mandated by provincial legislation. It has oversight responsibility for our Credit Union's financial reporting process and the quality of its financial reporting.

The Committee is made up of four Directors including myself as Chair, the president as an ex officio member and Sonia Coombs, General Manager.

During 2008 the Committee continued to focus on 3 areas:

- Reviewing key financial disclosure reports
- Ensuring adequacy of internal controls
- Overseeing the work of our external auditors

In addition, the Committee addressed:

- Overseeing the signing of official Code of Conduct for Directors, Officers and employees

- Monitoring the adherence of the Credit Union's Directors, Officers and employees, to its Code of Conduct
- Reviewing the Credit Union's policies and procedures governing the way in which it meets the requirements under the Act regarding liquidity, capital adequacy and interest rate risk management
- Reviewing the Credit Union's Disaster Recovery Plan
- Making recommendations for the audit appointment for the coming fiscal year

A resolution confirming our Credit Union's adherence to the Deposit Insurance Corporation of Ontario By-law #5 Standards of Business and Financial Practices has been approved by the Board of Directors and a copy forwarded to DICO as prescribed, within 75 days of our institution's fiscal year end.

Respectfully Submitted,  
**Courtney Doldron**  
Chair of Audit Committee

## AUDITORS' REPORT

To the Members of

**Toronto Catholic School Board Employees Credit Union Limited:**

We have audited the balance sheet of Toronto Catholic School Board Employees Credit Union Limited as at December 31, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2008 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Retford Lane Bates LLP**  
Licensed Public Accountants  
February 5, 2009

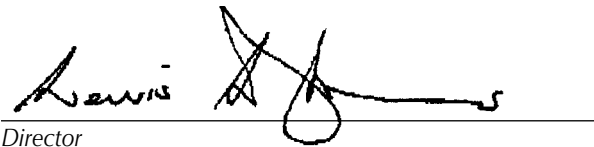
**BALANCE SHEET AS AT DECEMBER 31, 2008**

	2008	2007
<b>ASSETS</b>		
Cash resources (Note 3)	\$ 527,572	\$ 346,807
Investments (Note 4)	2,948,729	3,006,558
Loans to members (Note 5 and 6)	20,600,333	19,565,831
Other assets (Note 7)	27,504	16,675
Capital assets (Note 8)	45,323	35,821
	<b>\$ 24,149,461</b>	<b>\$ 22,971,692</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>		
<b>Liabilities</b>		
Term loan (Note 3)	\$ -	\$ 400,000
Members' deposits (Note 9)	22,433,140	20,816,346
Other liabilities (Note 10)	72,112	105,079
Member shares (Note 11)	412,255	420,867
	<b>22,917,507</b>	<b>21,742,292</b>
<b>Retained earnings</b>	<b>1,231,954</b>	<b>1,229,400</b>
	<b>\$ 24,149,461</b>	<b>\$ 22,971,692</b>

Approved by the Board,



Director



Director

## STATEMENT OF OPERATIONS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 2008

	2008	2007
<b>Interest income (Note 13)</b>		
Member loans	\$ 1,102,482	\$ 1,101,773
Investment income	132,528	158,364
	<b>1,235,010</b>	<b>1,260,137</b>
<b>Interest expense</b>		
Member deposits (Note 14)	371,449	300,585
Distribution to members	-	38,285
External borrowings	3,996	10,249
	<b>375,445</b>	<b>349,119</b>
<b>Net interest income</b>	<b>859,565</b>	<b>911,018</b>
<b>Provision for impaired loans (Note 6)</b>	<b>51,510</b>	<b>12,000</b>
<b>Net interest income after loan losses</b>	<b>808,055</b>	<b>899,018</b>
<b>Other income</b>	<b>91,014</b>	<b>100,776</b>
<b>Net interest and other income</b>	<b>899,069</b>	<b>999,794</b>
<b>Operating expenses</b>		
Amortization	11,764	16,202
Deposit insurance	19,992	20,719
Administrative (Schedule)	476,442	466,218
Salaries and benefits	342,383	392,375
	<b>850,581</b>	<b>895,514</b>
<b>Income before fair value adjustments</b>	<b>48,488</b>	<b>104,280</b>
<b>Fair value adjustments</b>		
Write-down of ABCP 2008 Limited Partnership units (Note 4)	(34,911)	-
Write-down of CUCO shares (Note 4)	(10,523)	-
Loss on other financial instruments	-	(11,019)
	<b>(45,434)</b>	<b>(11,019)</b>
<b>Income before income taxes</b>	<b>3,054</b>	<b>93,261</b>
<b>Income taxes</b>		
Current	700	20,059
Future	(200)	(5,000)
	<b>500</b>	<b>15,059</b>
<b>Net income for the year</b>	<b>2,554</b>	<b>78,202</b>
<b>Retained earnings, beginning of the year</b>	<b>1,229,400</b>	<b>1,162,772</b>
<b>Adjustment on implementation of financial instruments accounting standards (Note 2)</b>	<b>-</b>	<b>(11,574)</b>
<b>Retained earnings, end of the year</b>	<b>\$ 1,231,954</b>	<b>\$ 1,229,400</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2008

	2008	2007
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 2,554	\$ 78,202
Items not affecting cash:		
Amortization	11,764	16,202
Provision for impaired loans	51,510	12,000
Write-down of ABCP 2008 Limited Partnership units	34,911	-
Write-down of CUCO shares	10,523	-
Loss on financial instruments	-	11,019
Future income taxes	(200)	(5,000)
	<b>111,062</b>	112,423
Changes in non-cash working capital:		
Other assets	(10,629)	(9,528)
Other liabilities	(32,966)	1,417
	<b>67,467</b>	104,312
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(21,266)	(3,620)
Loans to members - net	(1,086,012)	(1,768,760)
Investments	12,395	750,342
	<b>(1,094,883)</b>	(1,022,038)
<b>Cash flows from financing activities</b>		
Increase (decrease) in term loan	(400,000)	400,000
Members' deposits	1,616,793	(557,413)
Member shares	(8,612)	(365)
	<b>1,208,181</b>	(157,778)
<b>Increase (decrease) in cash resources</b>	<b>180,765</b>	(1,075,504)
<b>Cash resources, beginning of the year</b>	<b>346,807</b>	1,422,311
<b>Cash resources, end of the year</b>	<b>\$ 527,572</b>	\$ 346,807
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest paid	\$ 392,574	\$ 334,010
Income taxes paid	8,309	30,358

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### NATURE OF BUSINESS

Toronto Catholic School Board Employees Credit Union Limited (the "Credit Union") is a financial institution incorporated under the Business Corporations Act of Ontario and operates in accordance with the Credit Unions and Caisses Populaires Act, 1994. 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, 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 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 designated 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.

#### CAPITAL ASSETS

Capital assets are stated at acquisition cost. Amortization is calculated using the methods set out below at annual rates based on their estimated useful lives as follows:

Asset	Rate	Method
Furniture and equipment	10 years	straight line
Computer and office equipment	5 years	straight line
Leasehold improvements	15 years	straight line

#### LOANS TO MEMBERS

Loans to members are stated at cost which includes amounts advanced and applicable charges, less repayments. Interest is accounted for on the accrual basis for all loans other than impaired loans.

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 in 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 were made change, there could be a significant change to the allowance for impaired loans.

The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by amounts written off, net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

#### 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.

#### MEMBER SHARES

As the Credit Union's shares are retractable at the option of the member, they are presented in the balance sheet as financial liabilities. Notwithstanding their financial statement classification, these liabilities qualify as capital for regulatory purposes. Dividends or other payments related to member shareholdings are reported

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

in the statement of operations and retained earnings as a financial expense.

### REVENUE RECOGNITION

Interest revenue is recognized using the effective yield method when collectibility is reasonably assured. Other income is recorded as services are performed.

### INCOME TAXES

The Credit Union follows the asset and liability method of accounting for income taxes. Under this method, future tax assets

and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

### 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.

## 2. CHANGE IN ACCOUNTING POLICY

In the previous year, the Credit Union adopted the accounting recommendations of The Canadian Institute of Chartered Accountants Handbook, Sections 3855, "Financial Instruments - Recognition and Measurement", and 3861, "Financial Instruments - Disclosure and Presentation". These recommendations were adopted on a retroactive basis without restatement of the prior years through an opening adjustment to retained earnings.

On January 1, 2008, the Credit Union adopted the following recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook:

- a) Section 3862, Financial instruments - Disclosures. This Section requires the disclosure of information about: a) the significance of financial instruments for the Credit Union's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the Credit Union is exposed during the year and as at the balance sheet date, and how the Credit Union manages those risks. The required disclosures are in Notes 3, 4, 6 and 19.

- b) Section 3863, Financial instruments - Presentation. This Section is unchanged from the presentation requirements previously included in Section 3861.

- c) Section 1535, Capital Disclosures. This Section requires the disclosure of information about the Credit Union's objectives, policies and processes for managing capital. The required disclosures are in Note 12.

### Future changes in accounting policy

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year ending December 31, 2011. The Credit Union is currently evaluating the impact of adopting IFRS.

## 3. CASH AND LIQUIDITY RISK

Cash resources consist of cash on hand, current account deposits and members' payroll deductions in transit.

The Credit Union has available a total credit facility with Central 1 Credit Union of \$905,000, as needed. This facility consists of: lines of credit in the amount of \$455,000 CAD and \$5,000 USD; a \$45,000 capital market account; and a \$400,000 term loan. The credit facility is secured by an assignment of book debts and a general security agreement covering all assets of the Credit Union and bears interest at the prime rate of interest. The term loan bears interest at the market rate established when the loan is initiated. At December 31, 2008, no portion of the facility was utilized.

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet

financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis. 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 is subject to a statutory requirement of maintaining a liquidity ratio of no less than 8.0% and has established a target range for maintaining a liquidity ratio between 12% and 25%. The Credit Union monitors its liquidity ratio on a regular basis and at December 31, 2008, the liquidity ratio was 11.2%. The Credit Union continually monitors the significance of large deposits and loan commitments relative to its liquidity.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### 4. INVESTMENTS

	2008	2007
<b>Held for Trading</b>		
Credit Union Central of Ontario		
Liquidity reserve deposit	\$ 1,717,742	\$ 1,666,254
Term deposits	-	400,000
Corporate bonds	256,538	755,857
Bank extendible notes and debentures	520,074	-
RBC Money Market Fund	137,840	-
ABCP 2008 Limited Partnership	120,184	-
	2,752,378	2,822,111
<b>Available for Sale</b>		
Credit Union Central of Ontario shares	196,350	184,447
Central 1 Credit Union Class A shares	1	-
	196,351	184,447
	\$ 2,948,729	\$ 3,006,558

#### Central 1 Credit Union liquidity reserve deposit

As a condition of maintaining membership in Central 1 Credit Union ("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 ninety days notice.

#### Central 1 Credit Union shares

As a condition of maintaining membership in Central 1, the Credit Union is required to keep an investment in shares of Central 1 equal to 0.60% of the Credit Union's total assets as at the preceding calendar year end, updated in February of each year. On November 15, 2007, Credit Union Central of Ontario (CUCO) made a capital call on their members equal to an additional 0.20% of the Credit Union's total assets as at December 31, 2006. On June 26, 2008 another capital call was made on their members equal to an additional 0.10% of the Credit Union's total assets as at December 31, 2007.

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

The merger was affected through the acquisition of CUCO's net assets in exchange for Class A and E shares in Central 1. On July 1, 2008, the Credit Union received one Class A share of Central 1 and the balance of Class A shares worth \$61,625 was received subsequent to year end.

The Credit Union expects to receive its portion of the Central 1 Class E shares and any remaining surplus cash from CUCO at the end of February, 2009.

The shares in Central 1, however, will bear a value and redemption amount estimated to be \$10,523 less than the carrying amount of the CUCO shares prior to the merger. At year end, the carrying amount of the

shares has been reduced to reflect the expected shortfall.

No market exists for the shares of CUCO and Central 1. The shares may be surrendered on withdrawal from membership for proceeds equal to the carrying value.

#### 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.

As a result, in June 2008, ABCP with a total par value of \$187 million was acquired by the ABCP LP at a cost of \$130 million, plus accrued interest of \$4 million. The Credit Union owns ABCP LP units equal to 0.1323% 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 30, 2008, 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 net present value for each class of notes.

Based upon a sensitivity analysis of the assumptions used, the expected

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

yield required by a potential investor remains the most significant assumption included in the fair value estimate. Based on this exercise, the ABCP LP estimated that as at December 30, 2008, the range of potential values was between \$76 million and \$99 million. The Credit Union has accepted the ABCP LP's estimate of value of \$90 million plus other assets, net of liabilities, of \$6 million as the value of the partnership

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.

The ABCP LP units with an original cost to the Credit Union of \$167,646 have an estimated fair value of \$120,184. This includes a distribution of \$12,551 and a \$34,911 fair value write-down adjustment.

### 5. LOANS TO MEMBERS

	2008	2007
Mortgages	\$ 18,265,445	\$ 17,017,934
Personal	2,392,822	2,562,280
Accrued interest	57,443	57,377
	<b>20,715,710</b>	19,637,591
Less allowance for impaired loans (Note 6)	(115,377)	(71,760)
	<b>\$ 20,600,333</b>	\$ 19,565,831

The loan classifications set out above are as defined in the Regulations to the Credit Unions and Caisses Populaires Act, 1994.

Mortgage loans are repayable in weekly, bi-weekly, semi-monthly or monthly blended principal and interest instalments over a maximum term of five years based on a

maximum amortization period of thirty years. Line of credit loans, secured by mortgages, require monthly interest only payments.

Personal loans are repayable in weekly, bi-weekly, semi-monthly or monthly blended principal and interest instalments and have a maximum term of five years. Contract loans are

revolving lines of credit with no fixed maturity dates. They are repayable in monthly blended principal and interest instalments equal to 3.00% of the principal outstanding.

As at December 31, 2008, the approved and unused line of credit limits amount to \$4,717,393 (2007 - \$3,334,315).

### 6. ALLOWANCE FOR IMPAIRED LOANS

	2008	2007
Balance at beginning of year	\$ 71,760	\$ 93,648
Loans written off	(7,893)	(40,875)
Loans recovered	-	6,987
	<b>63,867</b>	59,760
Provision charged to operations	51,510	12,000
Balance at end of year	<b>\$ 115,377</b>	\$ 71,760

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 its financial obligations. The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk

exposure of the Credit Union and reviews the effectiveness of internal control processes.

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.

The allowance for impaired loans provided for in the accounts of the Credit Union is in accordance, in all material respects, with the by-law of the Deposit Insurance Corporation of Ontario governing such allowances.

	Allowance for impaired loans balance		Aggregate impaired loans	
	2008	2007	2008	2007
Personal	\$ 115,377	\$ 71,760	\$ 96,057	\$ 47,566

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### 7. OTHER ASSETS

	2008	2007
Other receivable	\$ 2,722	\$ 235
Prepaid expenses	1,596	1,063
Income taxes receivable	17,986	10,377
Future income taxes	5,200	5,000
	<b>\$ 27,504</b>	<b>\$ 16,675</b>

### 8. CAPITAL ASSETS

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Furniture and equipment	\$ 32,698	\$ 20,339	\$ 12,359	\$ 14,379
Computer and office equipment	66,303	48,301	18,002	21,442
Leasehold improvements	44,267	29,305	14,962	-
	<b>\$ 143,268</b>	<b>\$ 97,945</b>	<b>\$ 45,323</b>	<b>\$ 35,821</b>

Amortization expense for the year amounted to \$11,764 (2007 - \$16,202).

### 9. MEMBERS' DEPOSITS

	2008	2007
Demand	\$ 3,088,752	\$ 3,477,819
Savings accounts	8,426,633	6,519,393
Term deposits	3,151,490	3,112,124
Registered savings plans	7,310,335	7,254,657
Registered income funds	349,587	364,895
Accrued interest	106,343	87,458
	<b>\$ 22,433,140</b>	<b>\$ 20,816,346</b>

**Term deposits** - Term deposits extend for terms up to five years. Certain deposits may be withdrawn prior to maturity dates subject to an interest penalty.

**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.

### 10. OTHER LIABILITIES

	2008	2007
Accounts payable and accrued charges	\$ 72,112	\$ 64,224
Accrued distribution to members	-	36,014
Interest rate swap	-	4,841
	<b>\$ 72,112</b>	<b>\$ 105,079</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### 11. MEMBER SHARES

As a condition of membership, each member must hold 27 shares with an issue price of \$5 each. As at December 31, 2008, there were 3,053 members (2007 - 3,117). Shares are redeemable only on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

Dividends on membership shares may be declared by the Board of Directors, subject to availability of sufficient earnings to meet regulatory capital requirements of the Act described in Note 12 to the financial statements.

### 12. CAPITAL ADEQUACY

In accordance with the requirements of the Credit Unions and Caisses Populaires Act, 1994 and accompanying Regulations, Class 1 credit unions are required to maintain sufficient capital to meet the following test:

#### Leverage test:

Regulatory capital, comprising membership shares, any other class of qualifying capital that may be issued, retained earnings and any non-specific allowance for impaired loans, must amount to at least 5% of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 6% of total assets.

	2008	2007
Regulatory capital at December 31:	\$ 1,659,409	\$ 1,670,549
Leverage test ratio:	6.9%	7.3%

### 13. INTEREST INCOME

Interest income is generated as follows:

	2008	2007
Mortgage loans	\$ 868,635	\$ 847,616
Personal loans	233,847	254,157
Member loans	1,102,482	1,101,773
Investments classified available for sale	-	5,965
Financial assets other than those held for trading	1,102,482	1,107,738
Investments classified as held for trading	132,528	152,399
	\$ 1,235,010	\$ 1,260,137

### 14. INTEREST EXPENSE ON MEMBER DEPOSITS

Interest expense on member deposits is generated as follows:

	2008	2007
Demand	\$ 47,728	\$ 21,915
Term	113,739	89,192
Registered savings plans	198,051	178,393
Registered income funds	11,931	11,085
	\$ 371,449	\$ 300,585

### 15. INCOME TAXES

The Credit Union's basic statutory tax rate is approximately 16.5%. 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. The temporary differences relate primarily to the amortized value of capital assets and the allowance for impaired loans.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### 16. COMMITMENTS

The Credit Union is committed under a lease agreement for premises expiring on June 30, 2013 to minimum annual occupancy cost as follows:

2009 .....	\$ 10,535
2010 .....	\$ 10,851
2011 .....	\$ 11,176
2012 .....	\$ 11,512
2013 .....	\$ 11,857

The Credit Union is party to a technology services agreement for core banking and other services. This agreement expires on December 31, 2013. The fees due under the agreement vary with transaction volumes. At December 31, 2008, the amount of this monthly commitment was approximately \$6,155.

### 17. RESTRICTED PARTY TRANSACTIONS

As at December 31, 2008, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$1,975,928 (2007 - \$1,582,547). There was no allowance for impaired loans required in respect of these loans as at December 31, 2008.

The Regulations require the financial statements to disclose a general description of the nature, number and aggregate value 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 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.

### 18. ADDITIONAL DISCLOSURES REQUIRED BY THE ACT

Directors and committee members received an honorarium for attendance at meetings. The total honorarium expense for the year was \$10,358 (2007 - \$11,665).

### 19. FINANCIAL INSTRUMENTS

#### FAIR VALUE

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 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	2008 Difference	2007 Difference
<b>Assets</b>				
Cash resources	\$ 527,572	\$ 527,572	\$ -	-
Investments	2,948,729	2,948,729	-	-
Loans to members	20,600,333	20,230,908	<b>(369,425)</b>	(540,244)
<b>Liabilities</b>				
Members' deposits	(22,433,140)	(22,499,401)	<b>(66,261)</b>	59,740

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

- (a) The fair value of cash resources are assumed to approximate their book value due to their short-term nature.
- (b) The fair value of investments are based on quoted market values.
- (c) 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.
- (d) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

### INTEREST RATE RISK

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by the Board of Directors and by the Act.

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	\$ 497,724	\$ -	\$ -	\$ 29,848	\$ 527,572	0.23%
Investments	137,840	1,988,524	505,830	316,535	2,948,729	2.68%
Loans to members	8,523,255	2,883,187	9,193,891	-	20,600,333	5.01%
<b>Total</b>	<b>9,158,819</b>	<b>4,871,711</b>	<b>9,699,721</b>	<b>346,383</b>	<b>24,076,634</b>	
Members' deposits	13,557,813	4,116,661	4,758,666	-	22,433,140	1.33%
Members' shares	-	-	-	412,255	412,255	-
<b>Total</b>	<b>13,557,813</b>	<b>4,116,661</b>	<b>4,758,666</b>	<b>412,255</b>	<b>22,845,395</b>	
Matching gap	\$ (4,398,994)	\$ 755,050	\$ 4,941,055	\$ (65,872)	\$ 1,231,239	

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union has established a policy for its earnings at risk to a possible change in interest rates to within 15 basis

points of assets as per regulatory requirement.

At December 31, 2008, management estimates that its exposure is between negative 3 and positive 1 basis points of assets.

### 20. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

### SCHEDULE OF EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2008

	2008	2007
<b>Administrative</b>		
Advertising and promotion	\$ 33,218	\$ 33,575
Annual dues	15,172	14,970
Board and committee	21,675	29,840
Bonding, fire and liability insurance	27,354	22,895
Collection costs	1,292	1,725
Data processing	162,564	164,250
Equipment maintenance	2,431	1,703
Interest and bank charges	3,495	3,332
Occupancy	13,524	13,550
Office and general	53,581	63,212
Professional development	36,190	31,100
Professional and consulting fees	99,743	80,184
RRSP management fees	6,203	5,882
	<b>\$ 476,442</b>	<b>\$ 466,218</b>



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