

**THAMESVILLE COMMUNITY
CREDIT UNION LIMITED**

FINANCIAL STATEMENTS

OCTOBER 31, 2010

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

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OCTOBER 31, 2010

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AUDITORS' REPORT

To the Members of
Thamesville Community Credit Union Limited:

We have audited the balance sheet of Thamesville Community Credit Union Limited as at October 31, 2010 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 October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Retford Lane Bates LLP
Licensed Public Accountants

November 17, 2010

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

BALANCE SHEET

AS AT OCTOBER 31, 2010

	2010	2009
ASSETS		
Cash resources	\$ 2,448,386	\$ 894,479
Investments (Note 3)	2,253,808	4,073,644
Loans to members (Note 4 and 5)	20,973,193	18,422,463
Other assets (Note 6)	83,275	89,785
Capital assets (Note 7)	762,164	662,304
	\$ 26,520,826	\$ 24,142,675
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Members' deposits (Note 8)	\$ 23,868,390	\$ 21,717,193
Other liabilities (Note 9)	307,999	260,699
Member shares (Note 10)	187,808	163,835
	24,364,197	22,141,727
Retained earnings	2,156,629	2,000,948
	\$ 26,520,826	\$ 24,142,675

Approved by the Board





Director

Director

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 2010

	2010	2009
Interest income (Note 12)		
Member loans	\$ 1,430,657	\$ 1,333,334
Investment income	66,438	90,853
	<u>1,497,095</u>	<u>1,424,187</u>
Interest expense		
Member deposits (Note 13)	248,905	290,229
Declared distribution to members	134,262	102,974
External borrowings	190	3,738
	<u>383,357</u>	<u>396,941</u>
Net interest income	<u>1,113,738</u>	<u>1,027,246</u>
Provision for impaired loans (Note 5)	<u>113,444</u>	<u>105,390</u>
Net interest income after loan losses	<u>1,000,294</u>	<u>921,856</u>
Other income		
Loss on investments held for trading	(4,726)	(3,480)
Other income	372,744	333,902
	<u>368,018</u>	<u>330,422</u>
Net interest and other income	<u>1,368,312</u>	<u>1,252,278</u>
Operating expenses		
Administrative (<i>Schedule</i>)	393,751	347,506
Data processing	52,410	77,632
Deposit insurance	19,983	20,221
Occupancy costs (<i>Schedule</i>)	90,928	96,483
Salaries and benefits	639,417	607,097
	<u>1,196,489</u>	<u>1,148,939</u>
Income before undernoted items	<u>171,823</u>	<u>103,339</u>
Other items		
Gain (loss) on ABCP 2008 Limited Partnership	14,407	(25,083)
Loss on disposal of foreclosed property	-	(7,263)
Write-down of CUCO shares	-	(3,074)
	<u>14,407</u>	<u>(35,420)</u>
Income before income taxes	<u>186,230</u>	<u>67,919</u>
Income taxes		
Current	4,049	27,964
Future	26,500	(16,100)
	<u>30,549</u>	<u>11,864</u>
Net income for the year	<u>155,681</u>	<u>56,055</u>
Retained earnings, beginning of the year	<u>2,000,948</u>	<u>1,944,893</u>
Retained earnings, end of the year	<u>\$ 2,156,629</u>	<u>\$ 2,000,948</u>

See accompanying notes to the financial statements

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED OCTOBER 31, 2010

	2010	2009
Cash flows from operating activities		
Net income for the year	\$ 155,681	\$ 56,055
Adjustments for:		
Amortization	69,152	90,507
Provision for impaired loans (Note 5)	113,444	105,390
Loss on investments held for trading	4,726	3,480
Gain (loss) on ABCP 2008 Limited Partnership	(14,407)	25,083
Write-down of CUCO shares	-	3,074
Future income taxes	26,500	(16,100)
Loss on foreclosed property	-	7,263
	<u>355,096</u>	<u>274,752</u>
Changes in non-cash working capital balances:		
Other current assets	6,509	33,722
Other liabilities	20,800	(18,506)
	<u>382,405</u>	<u>289,968</u>
Cash flows from investing activities		
Purchase of capital assets	(169,011)	(30,788)
Loans to members - net	(2,664,173)	(1,379,722)
Investments	1,829,516	1,265,034
	<u>(1,003,668)</u>	<u>(145,476)</u>
Cash flows from financing activities		
Members' deposits	2,151,197	(283,028)
Membership shares	23,973	(965)
	<u>2,175,170</u>	<u>(283,993)</u>
Increase (decrease) in cash resources	1,553,907	(139,501)
Cash resources, beginning of the year	894,479	1,033,980
Cash resources, end of the year	\$ 2,448,386	\$ 894,479
SUPPLEMENTARY INFORMATION:		
Interest paid	\$ 370,391	\$ 431,819
Income taxes paid	28,208	41,830

See accompanying notes to the financial statements

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

Nature of business

Thamesville Community 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 in the province of 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 held for trading are carried at fair value based on published market prices. Gains and losses are included in investment income for the period in which they arise.

Investments classified as loans and receivables are accounted for at amortized cost, using the effective interest method.

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.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

1. Significant accounting policies *(continued)*

Capital assets

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

Asset	Period	Method
Building	4%	straight-line
Parking and groundscape	8%	diminishing balance
Furniture and equipment	20%	diminishing balance
Computer equipment	20%	straight-line
Leasehold improvements	term of lease	straight-line

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 fees are included in the effective interest rate and are recognized over the terms of the 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, except for loans which are 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 judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for impaired loans consisting 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.

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

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

1. Significant accounting policies (*continued*)

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.

Financial instruments

The Credit Union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of members' share accounts and the related interest/dividends paid on such financial instruments. In accordance with these recommendations, which have been adopted on a retroactive basis, 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. Interest/dividends on these amounts are reported in the statement of operations and retained earnings as a financial expense.

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.

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.

2. Future changes in accounting policy

In January 2010, the Canadian Accounting Standards Board introduced International Financial Reporting Standards (IFRS) into Part 1 of the Canadian Institute of Chartered Accountants Handbook to 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. The Credit Union will be required to prepare its October 31, 2012 financial statements, including comparative information for 2011, in compliance with IFRS.

The Credit Union's project plan includes three phases: (1) scope and plan; (2) design and build; and (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 process of assessing the differences between current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption, is underway. The assessment will include the potential impact of the conversion effort on systems, internal controls over financial reporting, disclosure controls and business activities. At this point, the quantitative impact of transitioning to IFRS on the financial statements is not yet estimated.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

3. Investments

	2010	2009
<u>Loans and receivables</u>		
Central 1		
Liquidity reserve deposit	\$ 1,708,194	\$ 1,462,996
Term deposits	-	2,050,000
Accrued interest	20,901	33,530
	1,729,095	3,546,526
<u>Held for Trading</u>		
Central 1 liquidity reserve deposit	219,415	224,141
<u>Available for Sale</u>		
Credit Union Central of Ontario shares	712	33,712
Central 1 Class A shares	56,068	60,624
Central 1 Class E shares	127,300	94,300
ABCP Limited Partnership	121,218	114,341
	305,298	302,977
	\$ 2,253,808	\$ 4,073,644

The market value of investments classified as loans and receivables is \$1,746,659 (2009 - \$3,540,317).

The Credit Union was not required to classify any investments as held for trading, but has chosen to designate those indicated. Investments designated as held for trading are carried at their fair value.

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 ninety days notice.

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 assumed 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 Class A and Class E shares in Central 1.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

3. Investments (continued)

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 that time.

ABCP 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). A limited partnership was created, 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 0.1333% of the partnership. The ABCP LP is governed by a board of directors that was elected by the unit holders.

Approximately 80% of the ABCP held in the partnership was subject to a court-sanctioned restructuring process known as the "Montreal Accord". The remaining investment was in Apex Trust which was 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 September 30, 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.

Although there has been some trading activity in the notes held by ABCP LP, it is felt that an active market on which a fair value could be based has not been established for the following reasons: there are only a small number of brokers and buyers; transactions are not regularly occurring; there is a very wide difference between bid and ask values and final prices are negotiated; and relative to a discounted cash flow value, sales are occurring on a distressed basis.

The Credit Union carries its investment in the ABCP LP at its share of the estimated fair value of the partnership. There can be no assurance that this estimate will be realized. Subsequent adjustments, which could be material, may be required in the future.

4. Loans to members

	2010	2009
Mortgages	\$ 8,936,949	\$ 8,041,406
Personal	5,397,476	5,060,916
Agricultural	3,648,209	2,525,488
Commercial	3,344,532	3,154,551
Accrued interest	77,127	62,420
	21,404,293	18,844,781
Less: allowance for impaired loans	431,100	422,318
	\$ 20,973,193	\$ 18,422,463

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

4. Loans to members *(continued)*

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 to the Credit Union in weekly or monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of thirty 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 line of credit loans which are repayable on a revolving credit basis and require minimum monthly payments. All personal loans are open and, at the option of the borrower, may be paid off at any time without notice.

Commercial loans are secured by a mortgage on real property and are repayable to the Credit Union in weekly or monthly blended principal and interest instalments over a maximum term of five years based on a maximum amortization period of twenty-five years.

As at October 31, 2010, the Credit Union was committed to the issuance of mortgage loans and letters of credit to members in the aggregate amount of \$22,500 (2009 - \$200,625).

At October 31, 2010, the approved unused line of credit limits amount to \$2,132,165 (2009 - \$1,989,286).

5. Allowance for impaired loans

	2010	2009
Balance at beginning of year	\$ 422,318	\$ 434,170
Loans written off	(115,428)	(131,852)
Loans recovered	10,766	14,610
	317,656	316,928
Provision charged to operations	113,444	105,390
Balance at end of year	\$ 431,100	\$ 422,318

The Credit Union has established loan concentration policies to ensure a prudent diversification of the types of loans in its portfolio. The Credit Union's policy dictates that total personal loans may not exceed 60% of assets, residential mortgages may not exceed 50% of assets, commercial loans may not exceed 30% of assets and agricultural loans may not exceed 25% of assets. Additionally, the Credit Union has a maximum limit on the value by type of loan to individuals and connected parties.

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.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

5. Allowance for impaired loans (continued)

	Allowance for impaired loans balance		Aggregate impaired loans	
	2010	2009	2010	2009
Mortgages	\$ -	\$ 1,588	\$ 458,833	\$ 626,043
Personal	182,108	214,410	193,906	229,349
Agricultural	17,512	-	17,512	46,071
Commercial	31,480	36,107	82,928	87,876
Non-specific/general	200,000	170,213	-	-
	\$ 431,100	\$ 422,318	\$ 753,179	\$ 989,339

A loan is considered past due when a counterparty has not made a payment by the contractual due date. At October 31, 2010, the carrying value of the loans that are greater than thirty days past due, but not considered impaired (without deducting the value of security held) amounted to \$2,414 (2009 - \$32,040).

6. Other assets

	2010	2009
Prepaid expenses	\$ 42,154	\$ 43,285
Income taxes receivable	21,121	-
Future income taxes	20,000	46,500
	\$ 83,275	\$ 89,785

7. Capital assets

	Cost	Accumulated Amortization	2010 Net Book Value	2009 Net Book Value
Land	\$ 137,894	\$ -	\$ 137,894	\$ 117,894
Building	726,882	193,020	533,862	449,595
Parking and groundscape	38,224	34,082	4,142	26,241
Furniture and equipment	106,983	70,010	36,973	46,216
Computer equipment	218,599	169,306	49,293	17,375
Leasehold improvements	-	-	-	4,983
	\$ 1,228,582	\$ 466,418	\$ 762,164	\$ 662,304

Amortization expense for the year amounted to \$69,152 (2009 - \$90,507).

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

8. Members' deposits

	2010	2009
Profit savings	\$ 9,591,402	\$ 7,800,001
Term deposits	7,431,216	7,141,424
Chequing	4,741,805	4,567,683
Registered savings plans	1,615,260	1,728,285
Demand	365,019	335,453
Accrued interest	123,688	144,347
	\$ 23,868,390	\$ 21,717,193

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.

9. Other liabilities

	2010	2009
Accounts payable and accrued charges	\$ 171,187	\$ 133,153
Obligations under capital lease	-	21,321
Income taxes payable	-	3,038
Distribution to members	136,812	103,187
	\$ 307,999	\$ 260,699

10. Member shares

The Credit Union has 3,323 (2009 - 3,277) members. As a condition of membership, each member must hold a minimum of 10 membership shares with an issue price of \$5 each. Members may hold up to 210 (2009 - 10) shares. Shares may be withdrawn on demand or withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements, and the discretion of the directors who may require notice.

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.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

11. Capital adequacy (continued)

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

(a) 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 4.0% of total assets. The Credit Union has established an internal policy to maintain regulatory capital at no less than 4.0% of total assets.

(b) Risk-weighted assets test:

Regulatory capital, as defined above, must amount to at least 8% of risk-weighted assets. The risk weighting of assets is specified in the regulations to the Act. The Credit Union has established an internal policy to maintain regulatory capital at no less than 8.0% of risk-weighted assets.

As at October 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
<u>Tier 1 capital</u>		
Membership shares	\$ 187,808	\$ 163,835
Retained earnings	2,156,629	2,000,948
Total Tier 1 capital and Regulatory Capital	2,344,437	2,164,783
<u>Tier 2 capital</u>		
General provisions	200,000	151,889
Total Tier 2 capital	200,000	151,889
Tier 1 and Tier 2 capital	2,544,437	2,316,672
Total Regulatory Capital	\$ 2,544,437	\$ 2,316,672
Leverage test ratio:	9.6%	9.6%
Risk-weighted assets test ratio:	15.6%	15.5%

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

12. Interest income

Interest income is generated as follows:

	2010	2009
Residential mortgages	\$ 509,978	\$ 509,854
Personal loans	485,712	507,696
Agricultural loans	207,710	137,793
Commercial loans	227,257	177,991
Interest on member loans	1,430,657	1,333,334
Investments not classified as held for trading	59,681	2,483
Financial assets other than those held for trading	1,490,338	1,335,817
Investments classified as held for trading	6,757	88,370
	\$ 1,497,095	\$ 1,424,187

13. Interest expense on member deposits

Interest expense on member deposits is generated as follows:

	2010	2009
Demand	\$ 45	\$ 52
Term	207,278	239,582
Registered savings plans	41,582	50,595
	\$ 248,905	\$ 290,229

14. Income taxes

The Credit Union's basic statutory tax rate is approximately 16%. Any future income taxes included in other liabilities are 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 claiming capital cost allowance for income tax purposes in excess of amortization on capital assets for financial reporting purposes.

15. Restricted party transactions

As at October 31, 2010, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors, officers and their related parties totalled \$1,085,188 (2009 - \$1,605,742). There was no allowance for impaired loans required in respect of these loans as at October 31, 2010.

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.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

16. Fair value of financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. The estimated fair value amounts are based on the valuations techniques and assumptions 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
Assets				
Cash resources	\$ 2,448,386	\$ 2,448,386	\$ -	\$ -
Investments	2,253,808	2,271,372	17,564	(6,209)
Loans to members	20,973,193	21,466,009	492,816	407,740
Liabilities				
Members' deposits	23,868,390	23,997,484	129,094	193,835

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.

17. 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 regular reporting to the board of directors regarding the Credit union's liquidity level. In addition, the Credit Union continually monitors cash flows, the significance of large deposits and loan commitments relative to its liquidity.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

17. Nature and extent of risks arising from financial statements *(continued)*

The term "cash resources" as used in these financial statements consists of cash on hand and funds on deposit in current accounts. The Credit Union has available a line of credit of \$460,500 to cover shortfalls in cash resources due to unanticipated volume in clearings. This line of credit is secured by a general security agreement and an assignment of book debts. At October 31, 2010, the line of credit 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 to maintain a liquidity ratio at no less than 8%. At October 31, 2010, the liquidity ratio is 18.4%, which is in compliance with policy.

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

	2010	2009
Cash and current deposits with Central 1	\$ 2,448,386	\$ 894,479
Liquidity reserve deposit	1,927,609	2,183,545
	<u>\$ 4,375,995</u>	<u>\$ 3,078,024</u>

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 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;
- Limiting the concentration by industry for commercial loans;
- 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. In addition, at October 31, 2010 there are loans amounting to \$537,774 (2009 - \$706,510) that are past due, but not considered impaired.

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.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2010

17. Nature and extent of risks arising from financial statements *(continued)*

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 Credit Union uses interest rate swaps to manage its interest rate 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	\$ 1,778,257	\$ -	\$ -	\$ 670,129	\$ 2,448,386	0.97%
Investments	-	821,791	1,126,719	305,298	2,253,808	1.76%
Loans to members	5,342,748	2,140,227	13,490,218	-	20,973,193	6.82%
Total	7,121,005	2,962,018	14,616,937	975,427	25,675,387	
Members' deposits	10,231,692	4,247,340	4,647,554	4,741,804	23,868,390	1.00%
Member shares	187,808	-	-	-	187,808	5.00%
Total	10,419,500	4,247,340	4,647,554	4,741,804	24,056,198	
Matching gap	\$ (3,298,495)	\$ (1,285,322)	\$ 9,969,383	\$ (3,766,377)	\$ 1,619,189	

The Credit Union performs analysis to monitor the sensitivity of earnings to changes in interest rates. The Credit Union is required by statute and internal policy to limit its earnings at risk to a possible change in interest rates to within 15 basis points of assets. At October 31, 2010, management estimates that its exposure to a change in interest rates is a decrease in net interest income of 3 basis points of assets.

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 \$28,650 (2009 - \$12,336) have been included in other income on the statement of income and retained earnings for the year ended October 31, 2010.

THAMESVILLE COMMUNITY CREDIT UNION LIMITED

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED OCTOBER 31, 2010

	2010	2009
Administrative		
Advertising and promotion	\$ 35,129	\$ 18,850
Amortization of office equipment	9,243	8,073
Bonding	26,951	20,339
Collection costs	3,455	3,324
Education	14,643	7,148
Board and committee	18,784	12,785
League dues	9,119	10,880
Office and general	84,163	87,197
Professional fees	26,807	25,612
RRSP management fees	6,221	6,122
Service charges	137,941	125,816
Telephone	21,295	21,360
	\$ 393,751	\$ 347,506
Occupancy costs		
Amortization of buildings	\$ 26,780	\$ 24,402
Amortization of leaseholds	1,248	1,246
Amortization of parking area and groundscape	2,099	2,281
Property taxes and insurance	23,935	22,376
Rent	8,750	17,150
Repairs and maintenance	14,672	16,639
Utilities	13,444	12,389
	\$ 90,928	\$ 96,483