

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**SEPTEMBER 30, 2010**

**CONTENTS**

	<u>Page</u>
<b>MANAGEMENT REPORT</b>	1
<b>AUDITORS' REPORT</b>	2
<b>FINANCIAL STATEMENTS</b>	
BALANCE SHEET	3
RESERVE AND UNDIVIDED EARNINGS	4
OPERATIONS	5
CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 28
<b>SCHEDULES</b>	
INTEREST EXPENSE AND OTHER INCOME	29
OPERATING EXPENSES	30

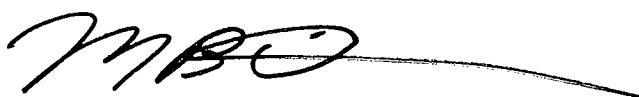
## MANAGEMENT REPORT

The financial statements contained in this report have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is responsible for the presentation, integrity and fairness of the data contained therein.

Management develops and maintains the necessary system of internal controls in order to operate the Credit Union and produce the proper books and records from which the financial statements are prepared. These internal controls are designed to provide assurance that transactions are authorized, assets are safeguarded and the use of the Credit Union's resources are optimized.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for internal control and financial reporting. The Board of Directors is accountable to the general membership of the Credit Union for directing the affairs of the Credit Union through the establishing of objectives and policies.

The independent auditors, McCay, Duff & Company LLP, examine the financial statements in accordance with Canadian generally accepted auditing standards and express their opinion on the fairness of the financial statements. The auditors have full and unrestricted access to the Audit Committee and Board of Directors to discuss their audit and related findings as to the integrity of the Credit Union's financial reporting and the adequacy of the system of internal control.



Chief Executive Officer  
Unity Savings and Credit Union Limited

November 10, 2010.

# MCCAY, DUFF & COMPANY LLP

CHARTERED ACCOUNTANTS

141 LAURIER AVE. WEST  
6TH FLOOR  
OTTAWA, ONTARIO K1P 5J3  
TEL: (613) 236-2367  
FAX: (613) 236-5041  
1 (800) 267-6551  
mccayduff@mccayduff.com  
WEB: www.mccayduff.com

## AUDITORS' REPORT

To the Members of  
Unity Savings and Credit Union Limited

We have audited the balance sheet of Unity Savings and Credit Union Limited as at September 30, 2010 and the statements of operations, reserve and undivided 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.

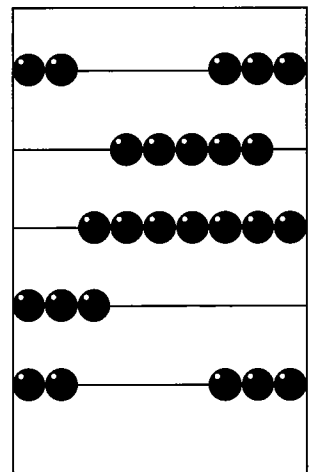
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2010 and the results of its operations and cash flows in accordance with Canadian generally accepted accounting principles.

*MCCAY DUFF + Co LLP*

McCay, Duff & Company LLP,  
Licensed Public Accountants.

Ottawa, Ontario,  
November 10, 2010.

THOMAS W HOWARTH C.A.  
PROFESSIONAL CORPORATION  
BLAIR EDWARD DAVIDSON C.A.  
PROFESSIONAL CORPORATION  
G W TRICKEY C.A.  
PROFESSIONAL CORPORATION  
ROBERT D SHANTZ C.A.  
PROFESSIONAL CORPORATION  
MARGARET N. EGAN C.A.  
PROFESSIONAL CORPORATION  
JASON T. HOWARTH C.A.  
PROFESSIONAL CORPORATION  
KAREN M. FREAKE, B. COMM., C.A.



**UNITY SAVINGS AND CREDIT UNION LIMITED**

**BALANCE SHEET**

**AS AT SEPTEMBER 30, 2010**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and short-term deposits	\$ 3,047,250	\$ 2,735,845
Investments (note 4)	12,298,375	11,104,192
Investment in ABCP 2008 Limited Partnership (note 5)	579,371	621,766
Loans to members (note 6)	139,595,632	134,927,288
Other assets (note 8)	104,722	132,816
Property, plant and equipment (note 9)	1,296,787	1,494,620
Future income taxes (note 10)	<u>108,211</u>	<u>72,322</u>
	<u>\$ 157,030,348</u>	<u>\$ 151,088,849</u>
<b>LIABILITIES</b>		
Bank overdraft	\$ -	\$ 2,584,523
Short-term loans (note 11)	-	6,003,178
Members' deposits (note 12)	146,083,271	132,855,556
Other liabilities (note 13)	<u>1,249,465</u>	<u>653,961</u>
	147,332,736	142,097,218
<b>REGULATORY CAPITAL (note 14)</b>		
Liabilities - Members' shares (note 15)	1,042,569	1,081,933
- Class B investment shares (note 16)	3,191,701	3,048,133
Equity - Reserve and undivided earnings	<u>5,463,342</u>	<u>4,861,565</u>
	<u>9,697,612</u>	<u>8,991,631</u>
	<u>\$ 157,030,348</u>	<u>\$ 151,088,849</u>

Commitments (note 18)

**Approved on behalf of the Board:**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**UNITY SAVINGS AND CREDIT UNION LIMITED**  
**STATEMENT OF RESERVE AND UNDIVIDED EARNINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>2010</u>	<u>2009</u>
<b>RESERVE</b>		
<b>BALANCE - BEGINNING AND END OF YEAR</b>	\$ <u>3,709,414</u>	\$ <u>3,709,414</u>
<b>UNDIVIDED EARNINGS</b>		
<b>BALANCE - BEGINNING OF YEAR</b>	\$ 1,152,151	\$ 1,296,473
Net income (loss) for the year	601,777	( 144,322)
Other comprehensive income	<u>-</u>	<u>-</u>
Comprehensive income (loss)	<u>601,777</u>	<u>( 144,322)</u>
<b>BALANCE - END OF YEAR</b>	\$ <u>1,753,928</u>	\$ <u>1,152,151</u>
<b>TOTAL RESERVE AND UNDIVIDED EARNINGS</b>		
<b>- END OF YEAR</b>	\$ <u>5,463,342</u>	\$ <u>4,861,565</u>

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
<b>OPERATING REVENUE</b>				
Merit lines - variable	\$ 1,660,495	21.49	\$ 1,822,960	25.27
Mortgages	1,793,811	23.21	1,600,900	22.20
Personal and other loans	1,765,761	22.85	2,210,092	30.64
Commercial loans	2,328,245	30.13	1,283,077	17.79
Investment income	<u>179,602</u>	<u>2.32</u>	<u>295,789</u>	<u>4.10</u>
	7,727,914	100.00	7,212,818	100.00
<b>INTEREST EXPENSE</b>				
Interest on members' deposits (Schedule 1)	2,355,753	30.48	2,900,233	40.21
Borrowed funds	<u>45,231</u>	<u>0.59</u>	<u>5,279</u>	<u>0.07</u>
	<u>2,400,984</u>	<u>31.07</u>	<u>2,905,512</u>	<u>40.28</u>
<b>FINANCIAL MARGIN</b>	5,326,930	68.93	4,307,306	59.72
<b>OTHER INCOME</b> (Schedule 1)	1,500,526	19.43	1,712,944	23.75
<b>PROVISION FOR LOSSES ON LOANS</b>	<u>( 339,296)</u>	<u>( 4.39)</u>	<u>( 431,202)</u>	<u>( 5.98)</u>
	6,488,160	83.97	5,589,048	77.49
<b>OPERATING EXPENSES</b>				
Amortization of property, plant and equipment	342,153	4.43	388,845	5.39
Financial (Schedule 2)	84,024	1.08	144,730	2.01
Members' security insurance (Schedule 2)	182,680	2.37	144,410	2.01
Occupancy cost (Schedule 2)	374,784	4.84	353,318	4.91
Other administrative (Schedule 2)	1,529,430	19.80	1,482,065	20.54
Remuneration to management and staff (Schedule 2)	<u>3,033,440</u>	<u>39.25</u>	<u>2,926,543</u>	<u>40.56</u>
	<u>5,546,511</u>	<u>71.77</u>	<u>5,439,911</u>	<u>75.40</u>
<b>INCOME BEFORE DIVIDENDS, INCOME TAXES AND OTHER EXPENSES</b>	941,649	12.20	149,137	2.09
Dividends on members' shares	102,000	1.31	-	-
Interest on Class B investment shares	<u>155,734</u>	<u>2.02</u>	<u>132,543</u>	<u>1.84</u>
<b>INCOME FROM OPERATIONS</b>	683,915	8.87	16,594	0.25
Loss on shares - CUCO (note 4)	-	-	61,000	0.85
Loss on ABCP 2008 Limited Partnership (note 5)	-	-	140,753	1.95
(Gain) loss on sale of property, plant and equipment	<u>4,699</u>	<u>0.06</u>	<u>( 49,294)</u>	<u>( 0.68)</u>
	<u>4,699</u>	<u>0.06</u>	<u>152,459</u>	<u>2.12</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	679,216	8.81	( 135,865)	( 1.87)
Provision for (recovery of) income taxes - current	113,328	1.47	-	-
- future	<u>( 35,889)</u>	<u>( 0.46)</u>	<u>8,457</u>	<u>0.12</u>
	<u>77,439</u>	<u>1.01</u>	<u>8,457</u>	<u>0.12</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<u>\$ 601,777</u>	<u>7.80</u>	<u>\$( 144,322)</u>	<u>( 1.99)</u>

## UNITY SAVINGS AND CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>2010</u>	<u>2009</u>
<b>CASH PROVIDED BY (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ 601,777	\$( 144,322)
Items not requiring an outlay of cash		
- amortization of property, plant and equipment	342,153	388,845
- future income taxes	( 35,889)	8,457
- (gain) loss on disposal of property, plant and equipment	<u>4,699</u>	<u>( 49,294)</u>
	<u>310,963</u>	<u>348,008</u>
	912,740	203,686
Changes in non-cash working capital		
- other assets	28,094	292,122
- other liabilities	<u>595,504</u>	<u>( 121,424)</u>
	1,536,338	374,384
<b>INVESTING ACTIVITIES (net)</b>		
Change in investments	( 1,194,183)	8,790,829
Change in ABCP 2008 Limited Partnership	42,395	346,179
Purchase of property, plant and equipment	( 274,040)	( 722,747)
Proceeds on sale of property, plant and equipment	<u>125,021</u>	<u>121,500</u>
	( 1,300,807)	8,535,761
<b>FINANCING ACTIVITIES (net)</b>		
Change in short-term loans	( 6,003,178)	6,003,178
Change in loans to members	( 4,668,344)	( 22,601,528)
Change in members' deposits	13,227,715	4,828,821
Change in members' shares	( 39,364)	( 55,644)
Change in Class B investment shares	<u>143,568</u>	<u>139,893</u>
	<u>2,660,397</u>	<u>( 11,685,280)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS (DEFICIENCY) DURING THE YEAR</b>	2,895,928	( 2,775,135)
Cash and cash equivalents - beginning of year	<u>151,322</u>	<u>2,926,457</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 3,047,250</u>	<u>\$ 151,322</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and short-term deposits	\$ 3,047,250	\$ 2,735,845
Bank overdraft	<u>-</u>	<u>2,584,523</u>
	<u>\$ 3,047,250</u>	<u>\$ 151,322</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid	\$ -	\$ -
Income taxes recovered	4,241	93,928

**UNITY SAVINGS AND CREDIT UNION LIMITED****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2010****1. NATURE OF BUSINESS**

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act of Ontario, 1994 effective December 1, 2006 as a result of an amalgamation of Unity Savings and Credit Union Limited and Maitland Credit Union Limited. It is affiliated with Central 1 Credit Union (Central 1).

**2. SIGNIFICANT ACCOUNTING POLICIES****(a) 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. This information has been integrated into the basic financial statements and notes and it is management's opinion that the disclosures in these financial statements and notes comply, in all material respects, with the requirements of the legislation. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

**(b) Financial Instruments**

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income. Short-term deposits and liquidity reserve deposits are classified as held-for-trading.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables or held-for-trading. Available-for-sale assets are written down to fair value through income whenever it is necessary to reflect an other-than-temporary impairment. Equities that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale as well as income from those securities are included in investment income. Available-for-sale assets are cash, CUCO and Central 1 shares and ABCP 2008 Limited Partnership Units and bank overdraft.

Loans and receivables are accounted for at amortized cost using the effective interest method. Assets classified as loans and receivables are accounts receivable and loans to members and short-term loans.

## UNITY SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)****(b) Financial Instruments (Cont'd.)**

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments. Assets classified as other liabilities are accounts payable, deposit accounts and liabilities qualifying as regulatory capital.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants, the Credit Union's Class B investment shares and membership shares are presented in the balance sheet as financial liabilities. Dividends on all classes of shares are classified as financial expenses in the statement of operations.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, cash on deposit with other financial institutions, cheques and other items in transit, and marketable securities with original maturities at acquisition of 90 days or less. Interest income on deposits with other financial institutions as well as marketable securities is included in investment income.

**(d) Loans to Members**

Residential mortgages, personal loans and commercial loans are recorded at principal amounts less an allowance for impaired loans.

Loans are classified as impaired when a specific allowance 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. Generally, loans are 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.

Loans are generally removed from the specific allowance when all delinquent principal and interest payments are brought current and the timely collection of both principal and interest is reasonably assured.

**(e) 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 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 currently recognized. The allowance for impaired loans consists of specific and general allowances, each of which is reviewed on a regular basis.

The allowance is increased by provision for impaired loans which are charged to earnings and reduced by write-offs net of recoveries.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

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

(e) Allowance for Impaired Loans (Cont'd.)

Specific allowances are determined on an item-by-item basis and reflect the associated credit loss. The specific allowance is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount, which is generally the fair value of any security underlying the loan, net of expected costs of realization.

The general allowance is established to absorb any potential credit losses and is determined through analysis of economic developments and current portfolio trends for credit losses and cannot be determined on a loan by loan basis. When losses can be attributable to individual loan facilities, specific allowances are recorded.

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

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated amortization. Amortization is provided on a straight line basis as follows:

Building	2 to 5%
Furniture and equipment	10 or 20%
Computer equipment	20%
Security equipment	20%
Automated tellers' machines	10 or 20%
Capital improvements	5 to 20%

One-half of the above rates are recorded in the year of acquisition.

(g) Income Taxes

The Credit Union accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis. Future income tax assets and liabilities are measured using substantively enacted income tax rates, as at the balance sheet date or expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in income for the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

(h) Dividends

Dividends are recorded as a distribution of net income for the period in which they are accrued, not for the period in which they are paid.

## UNITY SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

## (i) Statutory Reserve

Current legislation requires that the Credit Union shall establish and maintain a sufficient level of regulatory capital in accordance with Section 17 of Regulation 237/09 of the Act. As at September 30, 2010 the Credit Union has allocated sufficient amounts to this reserve to meet these requirements.

## (j) Revenue Recognition

Interest on loans is recognized on the accrual basis.

Revenue from investment income is recognized in the period it is earned.

Commissions, fees, and related revenues are recognized when the specific transactions are completed.

Service charges and sundry revenues are recognized when the service to the member has been rendered.

## (k) Comprehensive Income

Other comprehensive income includes, in particular, unrealized gains and losses on available-for-sale financial assets.

## (l) 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known.

## (m) Changes in Accounting Policy

In June 2009, the Canadian Institute of Chartered Accountants amended Section 3862 to improve fair value and liquidity disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based on the lowest level of input that is significant to the measurement of fair value.

The adoption of this standard resulted in amendments to the notes to the financial statements only. Refer to note 19.

## UNITY SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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

## (n) Foreign Currency

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at year end; income and expenses are translated at the rate in effect at the transaction date. Foreign currency exchange gains and losses are recognized in other income during the year.

**3. FUTURE ACCOUNTING STANDARDS**

## International Accounting Standards

The Canadian Accounting Standards Board (AcSB) will require all publicly accountable enterprises to adopt 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 for the Credit Union for the year ending September 30, 2012.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover date the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Credit Union's financial statements will only be measured once all the IFRS applicable at the conversion date are known.

Set out below are the key areas where changes in accounting policies as a result of adopting IFRS are expected to impact the Credit Union's financial statements. This should not be regarded as a complete list of changes that will ultimately result from transition to IFRS. At this stage, we are not able to reliably quantify the impacts expected on our financial statements arising from these changes.

## IFRS 1 - First-time Adoption of International Financial Reporting Standards

*Our adoption of IFRS will require the application of IFRS 1 First-time Adoption of International Financial Reporting Standards.*

IFRS 1, which provides guidance for an entity's initial adoption of IFRS, generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. We will be required to prepare an opening IFRS statement of financial position as of October 1, 2011 which will be disclosed in our first annual financial statements under IFRS. In addition, IFRS 1 will require reconciliations between Canadian GAAP and IFRS with detailed explanations of the adjustments required for the comparative year.

## UNITY SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**3. FUTURE ACCOUNTING STANDARDS (Cont'd.)**

We have completed our analysis of the elective exemptions and have tentatively concluded that we will apply the following exemption from retrospective application and in preparing our opening IFRS balance sheet:

**Property, Plant and Equipment**

We expect to continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS. We will use the historical bases under Canadian GAAP as deemed cost under IFRS at transition.

**IAS 16 – Property, Plant and Equipment**

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value as opposed to recreating depreciated cost under IFRS.

In certain circumstances IFRS requires property, plant and equipment to be segregated between own-use property and investment property for presentation and disclosure purposes. Where property is dual use, IFRS requires the property to be split into an own-use portion and an investment property portion for financial statement purposes if certain conditions are met. The Credit Union is currently assessing the appropriate classification of its property, plant and equipment.

Under IAS 16, own-use property, plant and equipment can be measured at amortized cost using the Cost Model or at fair value using the Revaluation Model with changes in fair value recorded in other comprehensive income. We have made a tentative decision to continue applying the cost model to property, plant and equipment.

**IAS 39 – Financial Instruments: Loan Loss Provisioning**

Similar to Canadian GAAP, IFRS adopts an “incurred loss” model for loan loss provisioning, however, IAS 39 provides more explicit guidance with respect to the methodology to be followed in assessing and measuring loan impairment. Provisions can only be recorded where there is objective evidence that a loss event has occurred and that loss event is expected to change the timing and or amount of the expected cash flows on the underlying loan(s) based on past experience. Loan losses can be assessed on an individual loan or collective basis. Unallocated general provisions are not permitted under IFRS. It is anticipated the changes may result in no major changes in the level of provisioning that the Credit Union holds against its credit exposures. Any change in the loan allowance, upon adoption, will be allocated to undivided earnings and will not be reflected in the Statement of Operations.

Estimated losses are required to be determined on a discounted cashflow basis using the original effective interest rate inherent in the loan. As the discount unwinds, interest income continues to be recorded on impaired loans.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**4. INVESTMENTS**

	<b>2010</b>	<b>2009</b>
Liquidity reserve deposit	\$ 11,096,616	\$ 9,898,444
Shares - CUCO	-	183,738
- Central 1 Credit Union Class A	350,886	342,439
- Central 1 Credit Union Class E	693,800	514,000
Other shares	5,623	5,623
Mortgages - Concentra Financial	151,450	159,948
	<b>\$ 12,298,375</b>	<b>\$ 11,104,192</b>

As a result of the merger of Credit Union Central of Ontario Limited (CUCO) with Credit Union Central of British Columbia (see note 5), the Credit Union's membership shares in CUCO were exchanged in part for membership shares in Central 1 Credit Union (Central 1). The shares are redeemable at cost only if there is a reduction in the Credit Union's total assets at September 30 each year or upon withdrawal of membership. Accordingly, there is no separately quoted market value. The fair value of the shares in Central 1 is not readily determinable because of the lack of a resale market and accordingly, they are carried at cost. Based on information, provided by Central 1 on their estimated net deficit as at September 30, 2009 the membership shares in CUCO were written down to record a loss in the amount of \$61,000. In the current year the balance of the CUCO shares have been allocated to the Central 1 Credit Union Class A and E shares.

**Liquidity Reserve Deposit**

All Credit Unions who are members of Central 1 shall invest 7% of its assets (as adjusted quarterly) in a liquidity reserve deposit with Central 1. Such deposits bear interest at a floating rate, must be callable and must mature within one year of being issued. In the ordinary course of business the Credit Union is not entitled to withdraw funds from the pool.

**UNITY SAVINGS AND CREDIT UNION LIMITED****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2010****5. ASSET-BACKED COMMERCIAL PAPER LIMITED PARTNERSHIP AND CENTRAL 1 CREDIT UNION MERGER**

At a special general meeting held May 31, 2008, members of Credit Union Central of Ontario Limited (CUCO) approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1 Credit Union (Central 1).

As a pre-condition of this merger, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of ABCP 2008 Limited Partnership (ABCP 2008 LP) to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of \$186,916,000 was acquired by the ABCP 2008 LP at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. The Credit Union's share of the ABCP 2008 LP was \$967,945. As there was no liquid market for these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of the assets underlying the ABCP investments. The valuation for each credit union's share of the ABCP was provided to them before closing.

At September 30, 2010 the ABCP LP completed a fair value evaluation and an impairment of \$nil (2009 - \$140,753) was recorded on the statement of operations. This investment is not traded in an active market and as such, the investments are recorded at cost net of impairment.

Distributions received during the year amounted to \$42,395 (2009 - \$205,426) and have been recorded as a return on capital.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**6. LOANS TO MEMBERS**

Residential mortgages are repayable in monthly blended principal and interest instalments and are amortized to a maximum period of 35 years.

Commercial loans and personal loans, including line of credit loans, are repayable to the Credit Union in monthly 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 loans, except for mortgages, are open and, at the option of the borrower, may be repaid at anytime without notice.

Mortgages Held by Concentra Financial

As at September 30, 2010 the members of the Credit Union have \$41,500,862 (2009 - \$34,992,523) of mortgage funds financed through an agreement with Concentra Financial and they are administered by the Credit Union.

<i>Principal</i>	<u>2010</u>	<u>2009</u>
Merit lines - variable	\$ 40,014,433	\$ 37,714,280
Residential mortgages	39,109,570	40,959,297
Personal loans	21,884,605	24,259,969
Commercial loans	<u>39,193,515</u>	<u>32,437,696</u>
	140,202,123	135,371,242
Allowance for impaired loans	<u>606,491</u>	<u>443,954</u>
Net loans to members	<u>\$ 139,595,632</u>	<u>\$ 134,927,288</u>
	<u>2010</u>	<u>2009</u>
<i>Interest income</i>		
Merit lines - variable	\$ 1,660,495	\$ 1,822,960
Residential mortgages	1,793,811	1,600,900
Personal loans	1,765,761	2,210,092
Commercial loans	<u>2,328,245</u>	<u>1,283,077</u>
	<u>\$ 7,548,312</u>	<u>\$ 6,917,029</u>

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**7. ALLOWANCE FOR IMPAIRED LOANS**

(a)	<u>Loan Category</u>	<u>Total</u>	<u>Impaired Loans</u>	<u>Allowance for Impaired Loans</u>
	Residential mortgages	\$ 79,124,003	\$ 53,188	\$ -
	Personal loans	21,884,605	261,067	446,291
	Commercial loans	<u>39,193,515</u>	<u>-</u>	<u>160,200</u>
		<u>\$ 140,202,123</u>	<u>\$ 314,255</u>	<u>\$ 606,491</u>

The allowance consists of a specific allowance of \$261,795 and a non-specific allowance for residential mortgages and personal loans of \$184,496 and commercial loans of \$160,200. The difference of \$52,460 between the impaired loans and the specific allowance represents security held in respect of these loans.

(b) Continuity of Allowance for Impaired Loans

Loans to members have been reduced by the allowance for impaired loans as follows:

	<u>2010</u>	<u>2009</u>
<b>BALANCE - BEGINNING OF YEAR</b>	\$ 443,954	\$ 611,590
Recovery of loans previously written off	61,267	64,951
Provision charged to operations	<u>339,296</u>	<u>431,202</u>
	844,517	1,107,743
Loans written off	<u>238,026</u>	<u>663,789</u>
<b>BALANCE - END OF YEAR</b>	<u>\$ 606,491</u>	<u>\$ 443,954</u>

The Credit Union continues to accrue interest on impaired loans and therefore an amount of \$2,551 (2009 - \$1,631), representing accrued interest receivable on impaired loans, is also included in the allowance above.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**7. ALLOWANCE FOR IMPAIRED LOANS (Cont'd.)**

(c) Loans past due but not impaired

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 classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

	<b>2010</b>		<b>2009</b>	
	<b>1-29 Days</b>	<b>30-89 Days</b>	<b>Total</b>	<b>Total</b>
Personal loans	\$ 412,531	\$ 97,039	\$ 509,570	\$ 1,066,179
Residential mortgages	<u>1,275,814</u>	<u>155,030</u>	<u>1,430,844</u>	<u>1,169,573</u>
	<u>\$ 1,688,345</u>	<u>\$ 252,069</u>	<u>\$ 1,940,414</u>	<u>\$ 2,235,752</u>

As of September 30, 2010, 98% of the loans were neither past due nor impaired (2009 - 98%). During the year, none of the mortgages or loans that would otherwise be past due or impaired were restructured.

The credit enhancements the Credit Union holds as security for loans include (i) residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; (iii) recourse to the commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities.

**8. OTHER ASSETS**

	<b>2010</b>	<b>2009</b>
Accounts receivable	\$ 49,741	\$ 48,856
Prepaid expenses and other	54,981	74,392
Income taxes receivable	<u>-</u>	<u>9,568</u>
	<u>\$ 104,722</u>	<u>\$ 132,816</u>

## UNITY SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

## 9. PROPERTY, PLANT AND EQUIPMENT

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 25,000	\$ -	\$ 154,721	\$ -
Building	279,741	199,340	279,741	193,745
Furniture and equipment	383,448	260,213	336,842	200,789
Computer equipment	520,026	462,392	509,301	401,085
Security equipment	100,187	44,068	70,061	27,043
Automated tellers' machines	596,579	213,722	591,580	259,688
Capital improvements	<u>1,089,875</u>	<u>518,334</u>	<u>1,028,690</u>	<u>393,966</u>
	<u>\$ 2,994,856</u>	<u>\$ 1,698,069</u>	<u>\$ 2,970,936</u>	<u>\$ 1,476,316</u>
Net book value		<u>\$ 1,296,787</u>		<u>\$ 1,494,620</u>
Current amortization		<u>\$ 342,153</u>		<u>\$ 388,845</u>

During the year, property, plant and equipment in the amount of \$274,040 was acquired (2009 - \$722,747) and property, plant and equipment with a cost of \$129,720 (2009 - \$72,206) was disposed of for proceeds of \$125,021 (2009 - \$121,500).

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**10. FUTURE INCOME TAXES**

The following table reconciles the income taxes that would result solely by applying statutory tax rates to accounting income to the actual income tax expense recorded in the accounts.

Accounting income before income taxes	\$ <u>679,216</u>
Tax at applicable rate	\$ 112,071
Utilization of loss carry forward	( 33,785)
Tax effect of differences in the timing of inclusion of items for income tax purposes	35,042
Provision for recovery of future income taxes	( <u>35,889</u> )
Total income tax expense	\$ <u>77,439</u>

The future income tax asset is determined as follows:

	<u>Carrying Amount</u>	<u>Tax Basis</u>	<u>Deductible Temporary Difference</u>
Loans to members	\$ 139,595,632	\$ 139,656,281	\$( 60,649)
Property, plant and equipment	1,271,787	1,766,649	( 494,862)
ABCP 2008 Limited Partnership income	579,371	677,866	( 98,495)
Cumulative eligible capital	<u>-</u>	<u>1,821</u>	<u>( 1,821)</u>
	<u>\$ 141,446,790</u>	<u>\$ 142,102,617</u>	<u>\$( 655,827)</u>
Future income tax asset (related to deductible temporary differences)	\$ <u>655,827</u>	16.50%	\$ <u>108,211</u>

**11. SHORT-TERM LOANS**

The Credit Union has an authorized credit facility with Central 1 totaling \$7,710,000. The credit facility is secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union. This facility was not in use at year end.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**12. MEMBERS' DEPOSITS**

<i>Deposits</i>	<u>2010</u>	<u>2009</u>
Chequing	\$ 24,480,322	\$ 21,926,959
Dividend savings	489,354	557,238
Registered Retirement Savings Plans	34,658,246	31,990,721
Registered Retirement Income Funds	8,168,631	7,521,051
Savings	28,934,810	27,516,537
Tax Free Savings	5,224,643	2,558,024
Term deposits	<u>44,127,265</u>	<u>40,785,026</u>
	<u>\$ 146,083,271</u>	<u>\$ 132,855,556</u>

(a) Term Deposits

Term deposits may be withdrawn prior to maturity date subject to a reduction of interest. Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a thirty day waiting period.

(b) Mutual Funds held by Credential Asset Management

Credential Asset Management administers mutual funds totaling \$58,938,306 (2009 - \$56,164,724) for Credit Union members.

<i>Interest Expense</i>	<u>2010</u>	<u>2009</u>
Chequing	\$ 85,351	\$ 87,300
Registered retirement savings plans	889,011	1,022,817
Registered retirement income funds	213,703	256,527
Savings	141,540	160,242
Term deposits	<u>1,026,148</u>	<u>1,373,347</u>
	<u>\$ 2,355,753</u>	<u>\$ 2,900,233</u>

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**13. OTHER LIABILITIES**

	<u>2010</u>	<u>2009</u>
Accounts payable	\$ 264,808	\$ 359,238
Concentra Financial payable	617,962	161,611
Interest payable on Class B investment shares	156,695	133,112
Dividends payable on membership shares	102,000	-
Income taxes payable	<u>108,000</u>	<u>-</u>
	<u>\$ 1,249,465</u>	<u>\$ 653,961</u>

**14. REGULATORY CAPITAL**

The Credit Union has a capital management policy in place that addresses the quantity, quality and composition of capital needed that reflects the inherent risks of the organization, to support the current and planned operations, and to meet regulatory requirements.

The Credit Unions and Caisses Populaires Act, 1994 requires the Credit Union to maintain regulatory capital at 4% of total assets and 8% of total risk weighted assets for years ending in 2010.

The Credit Union is in compliance with the Act and regulations regarding regulatory capital. As at September 30, 2010, regulatory capital amounted to \$9,934,097.

	<u>2010</u>	<u>2009</u>
<b>Tier 1 Capital</b>		
Members' shares	\$ 1,042,569	\$ 1,081,933
Class B investment shares	3,191,701	3,048,133
Reserve and undivided earnings	<u>5,463,342</u>	<u>4,861,565</u>
	9,697,612	8,991,631
<b>Tier 2 Capital</b>		
General loan allowance	344,696	257,697
Future income taxes	<u>( 108,211)</u>	<u>( 72,322)</u>
	<u>\$ 9,934,097</u>	<u>\$ 9,177,006</u>
% of total assets	<u>6.33</u>	<u>6.07</u>
% of total risk weighted assets	<u>12.28</u>	<u>12.23</u>

**UNITY SAVINGS AND CREDIT UNION LIMITED****NOTES TO FINANCIAL STATEMENTS****SEPTEMBER 30, 2010****15. MEMBERS' SHARES**

As a condition of membership, each member is required to hold a minimum of \$100 in membership shares. These membership shares are redeemable at cost only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in shares are not insured by DICO. The withdrawal of member shares and the payment of any dividends on these shares is subject to certain restrictions as provided by the Credit Union's by-laws and by the requirement of the Credit Union to maintain adequate regulatory capital (see Note 14). These shares are redeemable at par.

**16. CLASS B INVESTMENT SHARES**

During the prior period the Credit Union issued and redeemed Class B Investment Shares (non-cumulative, non-voting, non-participating special shares) for a subscription price of \$1.00 per share. Shares are redeemable at par.

**17. RESTRICTED AND RELATED PARTY TRANSACTIONS**

Restricted parties include all directors, officers as well as their spouses and immediate dependent family members.

**(a) Loans**

Loans to these restricted parties are advanced using staff and board discounted interest rates. Computer loans are issued at a preferred interest rate to officers to promote professional development. During the year the Credit Union granted loans of \$141,397 to restricted parties. Total loans outstanding to restricted parties as at September 30, 2010 is \$719,136. Unused lines of credit to restricted parties amount to \$591,213. As at September 30, 2010, none of these loans are in arrears.

**(b) Director and committee members' remuneration**

Director remuneration amounted to \$11,996 for the year (2009 - \$21,997) and is included in honoraria.

**(c) Remuneration of officers and employees**

In accordance with the required disclosure under Ontario Regulation 237/09, section 28, of the Credit Unions and Caisses Populaires Act 1994, there are no specified officers and employees receiving remuneration of greater than \$150,000 in the year.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**18. COMMITMENTS**

(a) Member Loans

The Credit Union has the following commitments to its members at the period end date on account of loans, unused lines of credit:

Merit line/Line of credit, personal loans and mortgages	\$ 47,897,703
Commercial loans	<u>9,643,586</u>
	<u>\$ 57,541,289</u>

When the above loans are advanced, they are subject to the same terms and conditions as loans described in Note 6 .

(b) Building Lease

The Credit Union signed an operating lease for a building (Napanee branch) beginning October 1, 2008. The building is leased for a base rent of \$1,825 per month plus \$6,000 annually towards taxes under a lease expiring in September 2018.

The minimum annual lease payments for the next five years are as follows:

2011	\$	28,459
2012	\$	28,459
2013	\$	28,459
2014	\$	30,934
2015	\$	30,934

(c) Building Lease

The Credit Union has entered into an operating lease for a building (Bayridge branch) beginning December 2001. The building is leased for a base rent of \$3,375 per month adjusted annually for actual operating costs under a lease expiring in December 2011.

The minimum annual lease payments for the next year is \$40,500.

(d) Building Lease

The Credit Union has entered into an operating lease for a building (Parkedale branch) beginning October 2005. Effective November 1, 2006 the building is leased for \$4,375 per month for the first year with annual increases based on CPI for subsequent years under a lease expiring in October, 2016.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**19. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The amounts set out below represent the fair values of the Credit Union's financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as prepaids, property, plant and equipment, income taxes receivable and future income taxes.

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. As a result of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	2010		2009	
	Fair Value	Book Value	Fair Value Over/(Under) Book Value	Fair Value Over/(Under) Book Value
<b>Assets</b>				
Cash and short-term deposits	\$ 3,047,250	\$ 3,047,250	\$ -	\$ -
Investments	12,298,375	12,298,375	-	-
Investment in ABCP 2008 Limited Partnership	669,015	579,371	89,644	-
Loans to members	141,823,123	140,202,123	1,621,000	1,375,000
<b>Liabilities</b>				
Members' deposits	147,113,271	146,083,271	1,030,000	1,065,000
Other liabilities	1,249,465	1,249,465	-	-
Share capital	4,234,270	4,234,270	-	-

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**19. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd.)**

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

- ( i ) The fair values of cash and cash equivalents, accounts receivable, accrued interest on members' loans and other liabilities are assumed to approximate their carrying values, due to their short-term nature.
- ( ii ) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.
- ( iii ) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposits and capital accounts at current market rates for products with similar terms and credit risks.

Financial instruments measured at fair value are classified by the fair value hierarchy set out in Section 3862 as described in note 2(m) as follows:

	<b>Level 1 Quoted Market Price</b>	<b>Level 2 Observable Market Price</b>	<b>Level 3 Non-Observable Market Inputs</b>	<b>Total</b>
Cash	\$ -	\$ 2,546,817	\$ -	\$ 2,546,817
Short-term investments held for trading	-	500,433	-	500,433
Investments - held for trading	<u>-</u>	<u>11,096,616</u>	<u>-</u>	<u>11,096,616</u>
	<u>\$ -</u>	<u>\$ 14,143,866</u>	<u>\$ -</u>	<u>\$ 14,143,866</u>

During the year there has been no transfer of amounts between Level 1 and Level 2. There are no financial instruments that are classified as Level 3.

## UNITY SAVINGS AND CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

**20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, liquidity risk and market risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

**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 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 mitigates this credit risk by: limiting the principal amount of credit to a borrower at a given time; performing a thorough credit analysis prior to the approval of the loan; obtaining collateral when appropriate; and employing risk based pricing. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an ongoing basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, the following: members' personal property such as vehicles; cash and marketable securities; mortgage charges; fixed, floating or specific general security agreements; and personal guarantees.

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

**Liquidity risk**

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk that the Credit Union may be unable to meet financial commitments in a timely and cost effective manner.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports monthly, to the Board, the Credit Union's compliance with the policy and Regulatory requirements; concentration of large deposits of single/connected depositors as a percentage of total deposits; and reports borrowings for liquidity purposes, the level of borrowings and the liquidity less borrowings in relation to the statutory minimum.

The Credit Union is required to maintain at all times an aggregate of at least 8% of all deposits and borrowings in some form of liquid assets. The Credit Union complies with requirements regarding adequate liquidity at September 30, 2010, the liquidity requirement is \$12,462,471 while liquid assets total \$14,084,403.

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Cont'd.)**

The table below sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential outflows in the form of commitments as set out in note 18.

	<u>2010</u>				<u>2009</u>	
	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Over Five Years</u>	<u>No specified Maturity</u>	<u>Total</u>	<u>Total</u>
<b>Assets</b>						
Cash and short-term deposits	\$ 500,433	\$ -	\$ -	\$ 2,546,817	\$ 3,047,250	\$ 2,735,845
Investments	7,093,962	4,154,104	-	1,629,680	12,877,746	11,104,192
Loans to members	31,650,005	99,334,195	8,611,432	-	139,595,632	134,927,288
<b>Liabilities</b>						
Bank overdraft	-	-	-	-	-	2,584,523
Short-term loans	-	-	-	-	-	6,003,178
Members' deposits	58,018,000	23,683,000	-	64,382,271	146,083,271	132,855,556
Members' shares	-	-	-	1,042,569	1,042,569	1,081,933
Class B Investment shares	-	-	3,191,701	-	3,191,701	3,048,133

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2010**

**20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Cont'd.)**

**Market risk**

Market risk is the risk of loss that may arise from change in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

(i) 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 (before allowance for impaired loans) by maturity dates and effective interest rates for the following on-balance sheet financial instruments.

	<u>Variable Rate</u>	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Non-Rate Sensitive</u>	<u>Total</u>	<u>Effective Interest Rate</u>
Cash and short-term deposits	\$ -	\$ 500,433	\$ -	\$ 2,546,817	\$ 3,047,250	0.41
Investments	-	7,093,962	4,154,104	1,629,680	12,877,746	0.92
Loans to members	59,835,123	16,293,000	64,074,000	-	140,202,123	6.16
Members' deposits	64,382,271	58,018,000	23,683,000	-	146,083,271	2.46
Members' shares	-	-	-	1,042,569	1,042,569	-
Class B Investment shares	-	-	3,191,701	-	3,191,701	4.63

Based on the Credit Union's interest rate positions as of September 30, 2010, an immediate and sustained 100 basis point increase in interest rates across all maturities would increase net interest income by approximately \$60,000 over the next twelve months. An immediate and sustained 25 basis point decrease in interest rates would increase net interest income by approximately \$nil.

(ii) 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 liabilities to its foreign currency assets.

**21. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified in order to conform with current financial statement presentation.

UNITY SAVINGS AND CREDIT UNION LIMITED

SCHEDULE OF INTEREST EXPENSE AND OTHER INCOME

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
<b>INTEREST EXPENSE -</b>				
<b>MEMBERS' DEPOSITS</b>				
Chequing	\$ 85,351	1.10	\$ 87,300	1.21
Registered Retirement Savings Plans	889,011	11.50	1,022,817	14.18
Registered Retirement Income Funds	213,703	2.77	256,527	3.56
Savings	141,540	1.83	160,242	2.22
Term deposits	<u>1,026,148</u>	<u>13.28</u>	<u>1,373,347</u>	<u>19.04</u>
	<u>\$ 2,355,753</u>	<u>30.48</u>	<u>\$ 2,900,233</u>	<u>40.21</u>
<b>OTHER INCOME</b>				
ATM revenue	\$ 173,679	\$ 2.25	\$ 217,002	\$ 3.01
ATM expense	( 203,498)	( 2.63)	( 192,422)	( 2.67)
Commission - Concentra Financial mortgages	147,631	1.91	144,307	2.00
Commission - other	286	0.01	421	0.01
Commission - mutual funds	214,189	2.77	210,891	2.92
Investment income - Credential	3,976	0.05	37,862	0.52
Loan insurance commissions and fees	158,861	2.06	217,662	3.02
Insurance rebate	109,902	1.42	101,812	1.41
Mortgage fees	12,161	0.16	21,586	0.30
Safety deposit boxes	12,552	0.16	9,031	0.13
Service charges and NSF fees	757,366	9.80	794,736	11.02
Sundry	<u>113,421</u>	<u>1.47</u>	<u>150,056</u>	<u>2.08</u>
	<u>\$ 1,500,526</u>	<u>19.43</u>	<u>\$ 1,712,944</u>	<u>23.75</u>

**UNITY SAVINGS AND CREDIT UNION LIMITED**

**SCHEDULE OF OPERATING EXPENSES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>
<b>FINANCIAL</b>				
R.R.S.P. administration costs	\$ 23,512	0.30	\$ 23,121	0.32
Service charges and exchange	60,512	0.78	121,609	1.69
	\$ 84,024	1.08	\$ 144,730	2.01
<b>MEMBERS' SECURITY INSURANCE</b>				
DICO insurance	\$ 158,795	2.06	\$ 129,474	1.80
Share and loan insurance	23,885	0.31	14,936	0.21
	\$ 182,680	2.37	\$ 144,410	2.01
<b>OCCUPANCY COST</b>				
Maintenance and repair	\$ 69,844	0.90	\$ 63,161	0.88
Municipal taxes	24,340	0.31	30,184	0.42
Rent	227,880	2.95	207,568	2.88
Utilities	52,720	0.68	52,405	0.73
	\$ 374,784	4.84	\$ 353,318	4.91
<b>OTHER ADMINISTRATIVE</b>				
Bad debts	\$ 5,390	0.07	\$ 36,249	0.50
Bond insurance	71,005	0.92	50,680	0.70
Computer applications	73,101	0.95	113,660	1.58
Credential office	10,176	0.13	12,982	0.18
Data processing	372,916	4.83	388,728	5.39
Education	79,276	1.03	57,108	0.79
FSCO	6,006	0.08	6,544	0.09
Insurance	30,873	0.40	24,534	0.34
Meeting and travel expense	95,053	1.23	91,140	1.26
Miscellaneous	187,229	2.42	188,908	2.62
Office supplies and expense	184,400	2.39	180,520	2.50
Professional fees	107,700	1.39	89,246	1.24
Publicity	293,759	3.80	229,220	3.18
Class B investment share issue	12,546	0.16	12,546	0.17
	\$ 1,529,430	19.80	\$ 1,482,065	20.54
<b>REMUNERATION TO MANAGEMENT AND STAFF</b>				
Employee benefits	\$ 553,614	7.16	\$ 489,353	6.78
Honoraria	11,996	0.16	21,997	0.30
Salaries	2,467,830	31.93	2,415,193	33.48
	\$ 3,033,440	39.25	\$ 2,926,543	40.56