

**Your Neighbourhood
Credit Union Limited**

**Auditors' Report and
Financial Statements**

September 30, 2008

Auditors' Report

To the Members of Your Neighbourhood Credit Union Limited

We have audited the balance sheet of **Your Neighbourhood Credit Union Limited** as at September 30, 2008 and the statements of retained earnings, accumulated other comprehensive income, income, other comprehensive income 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, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The September 30, 2007 comparative financial statements reflect the combination of Grand River Credit Union Limited, Your Neighbourhood Credit Union Limited and Mitchell & District Credit Union Limited. The financial statements of Your Neighbourhood Credit Union Limited as at and for the ten month period ended September 30, 2007 and Mitchell & District Credit Union Limited as at and for the year ended September 30, 2007 were audited by other firms of chartered accountants who expressed opinions without reservation on those statements in their reports dated November 1, 2007 and December 19, 2007, respectively.

Collins Barrow-Region of Waterloo LLP

**Chartered Accountants
Licensed Public Accountants**

**Cambridge, Ontario
October 31, 2008**

Your Neighbourhood Credit Union Limited
Balance Sheet
September 30, 2008

	2008	2007 (note 1)
Assets		
Cash and cash equivalents	\$ 6,926,706	\$ 12,223,396
Investments (note 3)	38,967,142	51,692,993
Income taxes receivable	40,513	0
Loans to members (notes 4 and 5)	405,006,106	353,418,073
Property and equipment (note 6)	5,511,944	5,509,753
Future income taxes (note 7)	245,600	90,987
Other assets (note 8)	<u>3,853,633</u>	<u>3,755,219</u>
	<u>\$ 460,551,644</u>	<u>\$ 426,690,421</u>
Liabilities		
Demand loans (note 11)	\$ 10,000,000	\$ 14,000,000
Accounts payable and accrued charges (note 9)	16,159,943	15,195,643
Income taxes payable	0	9,667
Members' accounts (note 10)	405,408,253	369,606,470
Share capital (note 13)	<u>4,707,759</u>	<u>5,239,231</u>
	<u>436,275,955</u>	<u>404,051,011</u>
Members' Equity		
Retained earnings	24,275,689	22,752,866
Accumulated other comprehensive income	<u>0</u>	<u>(113,456)</u>
	<u>24,275,689</u>	<u>22,639,410</u>
	<u>\$ 460,551,644</u>	<u>\$ 426,690,421</u>

On behalf of the board



Director



Director

Your Neighbourhood Credit Union Limited
Statement of Retained Earnings
Year Ended September 30, 2008

	2008	2007 (note 1)
Retained earnings, beginning	\$ 22,752,866	\$ 21,772,005
Net income	<u>1,522,823</u>	<u>980,861</u>
Retained earnings, ending	<u>\$ 24,275,689</u>	<u>\$ 22,752,866</u>

Your Neighbourhood Credit Union Limited
Accumulated Other Comprehensive Income
Year Ended September 30, 2008

	2008	2007 (note 1)
Balance, beginning	\$ (113,456)	\$ 0
Adjustments relating to adoption of CICA 3855	<u>0</u>	<u>35,226</u>
Balance, as restated	(113,456)	35,226
Other comprehensive income, net of tax		
Increase in unrealized loss on interest rate SWAP agreements, net of taxes of \$35,828 (2007 - \$35, 828)	113,456	(113,456)
Reclassified to net income in regards to interest rate SWAP agreements, net of taxes of \$0 (2007 - \$11,124)	<u>0</u>	<u>(35,226)</u>
Balance, ending	<u>\$ 0</u>	<u>\$ (113,456)</u>

Your Neighbourhood Credit Union Limited
Statement of Income
Year Ended September 30, 2008

	2008	2007 (note 1)
Revenue		
Interest on commercial and agricultural loans and mortgages	\$ 3,670,323	\$ 2,976,877
Interest on residential mortgages	16,050,773	14,284,175
Interest on personal loans	2,644,147	2,813,446
Interest on investments	2,022,671	2,272,543
Other income	<u>2,731,457</u>	<u>2,985,153</u>
	<u>27,119,371</u>	<u>25,332,194</u>
Financial expenses		
Distributions to members - interest on deposits (note 12)	12,857,855	11,806,516
Class B Investment Shares dividend	223,967	227,400
Other interest - net (note 17)	<u>450,885</u>	<u>361,868</u>
	<u>13,532,707</u>	<u>12,395,784</u>
	<u>13,586,664</u>	<u>12,936,410</u>
Financial margin		
Expenses		
Administration	1,684,035	1,707,394
Advertising and promotion	425,850	375,123
Audit fees	138,292	203,661
Board and committee (note 19)	108,320	122,349
Data processing	543,028	501,252
Depreciation and amortization	873,330	1,013,992
Insurance premium - Deposit Insurance Corporation of Ontario	302,952	288,166
Occupancy cost	1,060,761	1,056,638
Provision for impaired loans (note 5)	449,118	298,922
Salaries and benefits	5,990,132	5,600,224
CUCO dues paid on behalf of members	107,682	99,995
Write-down of CUCO shares	<u>100,282</u>	<u>0</u>
	<u>11,783,782</u>	<u>11,267,716</u>
Income before income taxes and Member Patronage Dividend	1,802,882	1,668,694
Membership Patronage Dividend	<u>245,500</u>	<u>228,000</u>
Income before income taxes	<u>1,557,382</u>	<u>1,440,694</u>
Provision for (recovery of) income taxes (note 7)		
Current	225,000	448,992
Future	<u>(190,441)</u>	<u>10,841</u>
	<u>34,559</u>	<u>459,833</u>
Net income	<u>\$ 1,522,823</u>	<u>\$ 980,861</u>

Your Neighbourhood Credit Union Limited
Other Comprehensive Income
Year Ended September 30, 2008

	2008	2007 (note 1)
Net income	\$ 1,522,823	\$ 980,861
Increase in unrealized loss on interest rate SWAP agreements, net of taxes of \$0 (2007 - \$35,828)	0	(113,456)
Reclassified to net income in regards to interest SWAP agreements, net of taxes of \$0 (2007 - \$11,124)	<u>0</u>	<u>(35,226)</u>
Total other comprehensive income	<u>\$ 1,522,823</u>	<u>\$ 832,179</u>

Your Neighbourhood Credit Union Limited
Statement of Cash Flows
Year Ended September 30, 2008

	2008	2007 (note 1)
Cash provided by (used for):		
Operating activities:		
Net income	\$ 1,522,823	\$ 980,861
Items not affecting cash		
Future income taxes	(154,613)	10,841
Amortization	873,330	1,013,992
Provision for impaired loans	449,118	297,007
Adjustments relating to adoption of CICA 3855	113,456	(146,446)
Change in non-cash operating working capital:		
Accounts receivable and prepaid expenses	98,205	133,825
Accounts payable and accrued charges	(448,793)	219,261
Net change in accrued interest receivable and payable	1,216,474	2,341,260
Income taxes	<u>(50,180)</u>	<u>(44,127)</u>
Cash provided by operating activities	<u>3,619,820</u>	<u>4,806,474</u>
Financing activities		
Members' accounts	35,801,783	23,385,563
Demand loans	(4,000,000)	(5,000,000)
Class B Investment shares	(205,675)	(189,792)
Membership shares	(325,797)	5,923
Mortgage securitizations (note 21)	<u>0</u>	<u>16,103,000</u>
Cash provided by financing activities	<u>31,270,311</u>	<u>34,304,694</u>
Investing activities		
Loans to members	(52,037,151)	(32,076,229)
Purchase of property and equipment	(875,521)	(1,119,687)
Investments in ABCP Limited Partnership	(2,988,444)	0
Investment in marketable securities (net)	20,994,030	3,019,649
CUCO liquidity reserve deposit	(3,954,080)	(6,943,613)
CUCO shares	<u>(1,325,655)</u>	<u>(55,981)</u>
Cash used for investing activities	<u>(40,186,821)</u>	<u>(37,175,861)</u>
Net increase (decrease) in cash position	(5,296,690)	1,935,307
Cash and cash equivalents, beginning	<u>12,223,396</u>	<u>10,288,089</u>
Cash and cash equivalents, ending	<u>\$ 6,926,706</u>	<u>\$ 12,223,396</u>
<hr/>		
Interest and membership patronage dividends paid	<u>\$ 11,444,762</u>	<u>\$ 10,489,204</u>
Income taxes paid	<u>\$ 174,820</u>	<u>\$ 527,191</u>

Your Neighbourhood Credit Union Limited

Notes to the Financial Statements

September 30, 2008

1. Status and nature of activities

Your Neighbourhood Credit Union Limited was formed on October 1, 2007 as a result of the amalgamation of Your Neighbourhood Credit Union Limited and Grand River Credit Union Limited and continued operations under the name Your Neighbourhood Credit Union Limited. On February 29, 2008, Your Neighbourhood Credit Union Limited and Mitchell & District Credit Union Limited amalgamated. The amalgamations were accounted for by the continuity of interests method whereby the carrying values of the assets, liabilities and members' equity of all predecessor credit unions were added together. The newly formed credit union continued operations under the name Your Neighbourhood Credit Union Limited.

Nature of business

Your Neighbourhood Credit Union Limited (the "credit union") is a financial institution incorporated under the Business Corporation Act of Ontario and operates in accordance with the Credit Unions and Caisses Populaires Act, 1994. The credit union provides financial products and services to member throughout Ontario.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the accounting policies set out below.

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.

Financial instruments

The credit union recognizes and measures financial assets, and financial liabilities on the balance sheet when they become a party to contractual provisions of financial instruments. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as available-for-sale. For assets classified as loans and receivables, transaction cost are capitalized on initial recognition.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

2. Significant accounting policies (continued)

Held for trading

Financial instruments included in this category are cash and short term deposits and government securities. These instruments are recognized initially at fair value. They are subsequently measured at fair value and gains and losses arising from changes in fair value of these instruments are recorded in the statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments are classified as held for trading on initial recognition.

Certain deposits at Central 1 Credit Union ("Central") and members loans have been classified as loans and receivables. These instruments are initially recognized at fair value. They are subsequently valued at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale financial assets

Available for sale assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories. Certain investments in equity instruments have been classified as available for sale. They are initially recognized at fair value. Investments in equity instruments classify as available-for-sale that do not have a quoted market price in an active market are measured at cost less any provision for impairment.

Other financial liabilities

Other financial liabilities are non-derivative financial liabilities and include members deposits, membership shares and accounts payable and accrued charges. These instruments are initially recognized at fair value. They are subsequently measured at amortized cost using the effective interest method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for the instrument to which the credit union has immediate access.

Fair value determined using valuation models require the use of assumptions concerning the amount and timing of estimate future cash flows and discounted rates. In determining those assumptions, we look primarily to external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities, as applicable.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

2. Significant accounting policies (continued)

Member shares

The credit union has adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the financial statement presentation of Series 1 and Series 2 Class B Investment Shares, and Membership Shares and the related dividends paid on such financial instruments. In accordance with these recommendations, the credit union's Series 1 and Series 2 Class B Investment Shares and Membership Shares are presented in the balance sheet as financial liabilities. These liabilities qualify as capital for regulatory purposes, notwithstanding their financial statement classification. Dividends on all classes of shares are classified as financial expenses in the statement of income.

Cash and cash equivalents

The term cash and cash equivalents as used in these financial statements consists of cash on hand.

The business of the credit union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on a declining-balance basis for the office equipment, computer equipment, buildings and on the straight-line basis for leasehold improvements. The amortization rates used are as follows:

Buildings	5%
Computer equipment	30%
Office equipment	20%
Leasehold improvements	15 years

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

2. Significant accounting policies (continued)

Asset retirement obligations

Liabilities related to legal obligations associated with the retirement of tangible long-lived assets are initially measured at fair value and subsequently adjusted for the accretion of the discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into earnings over time.

Mortgage securitizations

The credit union periodically sells mortgage loans to an independent special purpose trust, which in turn issues securities to investors. This program is coordinated through Central 1 Credit Union. These transactions are accounted for as sales and the related loans are removed from the balance sheet when control over the loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange.

The fair value of loans sold and the resulting retained interests are determined using pricing models based on key assumptions such as expected losses, prepayments and discount rates commensurate with the risks involved. The carrying value of retained interests are reviewed annually for impairment and adjusted as required.

Gains or losses on these transactions are reported as non-interest income on the statement of earnings.

The amount of these gains or losses are based on the present value of expected future cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, credit losses and discount rates.

The credit union typically retains interests in the transferred loans, such as excess interest spread, servicing rights and cash reserve accounts. Revenue from servicing the loans is recorded as the services are provided.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

2. Significant accounting policies (continued)

Loans to members

Loans to members are stated at amortized cost, which includes amounts advanced and applicable charges, less repayments. Interest is recorded using the effective interest rate method 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 a reasonable doubt as to the ultimate collectability 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 in excess of 90 days is reversed and charged against current income.

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.

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.

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 currently recognized. The allowance for impaired loans consists of specific provisions and a general provision, each of which is reviewed on a regular basis. The allowance is increased by provisions for impaired loans which are charged to earnings and reduced by write-offs net of recoveries.

Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss. The specific provision 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.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

2. Significant accounting policies (continued)

The non-specific provision 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 attributed to individual loan facilities, specific provisions 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.

Mortgage broker fees and cashbacks

Mortgage broker fees and cashbacks are included in prepaid expenses and are amortized over the term of the related mortgage.

Derivative instruments

From time to time, the credit union enters into interest rate swaps and equity-linked purchase options to manage exposure to interest rate and other market risks. The credit union does not enter into derivative financial instruments for trading or speculative purposes.

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

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or is terminated. The fair value of the derivative is recognized in assets or liabilities at that time and the gain or loss is deferred and recognized in net interest income in the periods that the hedge items affect net earnings. Hedge accounting is also discontinued on the sale or termination of the hedged item. The fair value of the derivative is recognized in assets or liabilities at that time and the gain or loss is deferred and recognized in net interest income.

Derivatives that no longer qualify for hedge accounting are carried at fair value on a gross basis in assets and liabilities with changes in fair value recorded in other income.

The credit union enters into interest rate swap agreements to manage the exposure to changes in interest rates. The swap agreements are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Any gains and losses are included in income. Revenues or expenses resulting from these transactions are recognized over the life of the agreements in the year in which they are earned or incurred.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

2. Significant accounting policies (continued)

Equity-linked purchase options are used to reduce the exposure to stock market fluctuations in the return associated with Equity-Linked Deposit products issued to members. The premiums paid for these options are deferred in other assets and amortized to interest expense on members' deposits over the life of the options.

Income taxes

The liability method of income tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Use of estimates

The preparation of the credit union's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from such estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

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 and losses are included in operations.

Members' deposits

The members' deposits are recorded at amortized cost. Interest expenses is recorded using the effective interest rate method over the terms of the deposits.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

3. Investments	2008	2007
Investments in marketable securities		
(Market value \$1,110,013; 2007 - \$22,127,476)	\$ 1,105,516	\$ 22,099,546
Central 1 Credit Union		
Liquidity reserve deposits	31,161,828	27,207,748
Shares	3,711,354	2,385,699
Investment in ABCP 2008 Limited Partnership (at cost)	<u>2,988,444</u>	<u>0</u>
	<u>\$ 38,967,142</u>	<u>\$ 51,692,993</u>

Investment in ABCP 2008 Limited Partnership

As a condition of membership in Central, the credit union is required to maintain an investment in shares of Central equal to six tenths of one per cent (0.60%) of the credit union's total assets as of December 31 of the immediately preceding year. No market exists for the shares of Central except that they may be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the credit union's own shares and deposits decline. Accordingly, in the absence of any other determination, market value is considered to be equal to cost.

In November 2007, Credit Union Central of Ontario ("CUCO") invoked a capital call on its member credit unions of 20 basis points of each credit union's total assets as at December 31, 2006. CUCO was required to raise capital to meet member credit union funding needs as well as the need to remain within regulatory compliance.

Another capital call was invoked in June 2008 to ensure that CUCO had sufficient capital to close the merger with B.C. Central. This call was for 10 basis points of each credit union's total assets as at December 31, 2007.

A Liquidity Reserve Deposit equal to 7% of the credit union's total assets at each calendar quarter end is an additional condition of membership in Central. These Liquidity Reserve Deposits consist of nine fixed rate investments due within one year, bearing interest at an average rate of 3.04% (2007 - 4.34%). At maturity, these deposits are reinvested at market rates for various terms.

The carrying value of the liquidity reserve at Central approximates market value.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

3. Investments (continued)

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 a limited partnership (ABCP 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 LP at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. As there is still no liquid market in 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. The market situation has not changed so that valuation should be sufficient to rely on at year end. The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles and subject to an annual external audit. As at September 30, 2008, this credit union has \$2,988,444 invested in ABCP LP units.

Investments in marketable securities

Included in investments in marketable securities are investments held in Central, in provincial bonds and in instruments of Canadian chartered banks. The carrying amounts of the investments approximate their respective market values. The investments are summarized as follows:

	2008	2007
Total principal amount	\$1,105,516	\$22,099,546
Range of individual principal amounts	\$500,000 to \$600,000	\$100,000 to \$3,000,000
Range of maturity dates	October 6, 2008 to October 14, 2008	November 13, 2007 to July 25, 2008
Range of interest rates	2.21% to 2.48%	3.50% to 4.86%

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

3. Investments (continued)

Liquidity reserve deposit

As a condition of maintaining membership in Central in good standing, the credit union is required to maintain on deposit in Central an amount equal to 7% (2007 - 2% to 7%) of the aggregate of its own share capital and deposits as of the preceding calendar year end, updated in February of each year.

The liquidity reserve deposits are investments in Central Liquidity Deposits. The terms are summarized as follows:

	2008	2007
Total principal amount	\$31,161,828	\$27,207,748
Range of individual principal amounts	\$1,206,638 to \$6,604,031	\$1,730,592 to \$2,951,073
Range of maturity dates	October 27, 2008 to June 24, 2009	December 29, 2006 to August 28, 2007
Range of interest rates	3.08% to 4.07%	3.84% to 4.31%

Central 1 Credit Union – shares

As a condition of maintaining membership in Central, the credit union is required to keep an investment in shares of Central equal to 0.60% of the total assets of the credit union as at the preceding calendar year end, updated in December of each year.

No market exists for shares of Central except that they may be surrendered on withdrawal from membership for proceeds equal to the paid-in value, to be redeemed in accordance with a Central by-law providing for the redemption of its share capital.

4. Loans to members

	2008	2007
Residential mortgages	\$ 317,451,380	\$ 272,399,351
Personal loans	31,693,871	31,530,445
Commercial and agricultural loans and mortgages	<u>56,789,051</u>	<u>50,306,173</u>
	405,934,302	354,235,969
Allowance from impaired loans:		
Residential mortgages (note 5)	(920)	(17,924)
Personal loans (note 5)	(536,554)	(567,639)
Commercial and agricultural loans and mortgages (note 5)	<u>(390,722)</u>	<u>(232,333)</u>
	<u>\$ 405,006,106</u>	<u>\$ 353,418,073</u>

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

4. Loans to members (continued)

Personal loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest instalments over a maximum period of five years. Residential and commercial mortgage loans bear interest at fixed and variable annual rates and are repayable in monthly blended principal and interest instalments over a maximum period of ten years based on a maximum amortization period of thirty-five years. Line of credit loans bear interest at variable rates and are repayable in minimum interest only, not in advance, subject to annual review.

Commercial, agricultural and 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 seven years, except for line of credit loans which are repayable on revolving credit basis and required minimum monthly payments.

All loans are open and, at the option of the borrower, may be repaid at any time without notice or penalty, with the exception of commercial and residential mortgage loans with a term exceeding one year which are closed.

At September 30, 2008, the aggregate amount of commercial and residential mortgage loan commitments was \$49,348,577 (2007 - \$37,126,543). The approved unused lines of credit amounted to \$19,440,573 (2007 - \$23,546,603).

5. Allowance for impaired loans	2008	2007
Residential mortgages		
Balance, beginning of year	17,924	7,894
Loans written-off as uncollectible (net of recoveries)	<u>(17,004)</u>	<u>(1,965)</u>
	920	5,929
Provision for impaired loans	<u>0</u>	<u>11,995</u>
Balance, end of year	<u>920</u>	<u>17,924</u>
Personal loans		
Balance, beginning of year	\$ 640,995	\$ 841,518
Loans written-off as uncollectible (net of recoveries)	<u>(312,422)</u>	<u>(457,020)</u>
	328,573	384,498
Provision for impaired loans	<u>207,981</u>	<u>256,497</u>
Balance, end of year	<u>536,554</u>	<u>640,995</u>

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

5. Allowance for impaired loans (continued)	2008	2007
Commercial and agricultural loans and mortgages		
Balance, beginning of year and end of year	158,978	207,133
Loans written-off as uncollectible	<u>(9,393)</u>	<u>(90,223)</u>
	149,585	116,910
Provision for impaired loans	<u>241,137</u>	<u>42,068</u>
Balance, end of year	<u>390,722</u>	<u>158,978</u>
	<u>\$ 928,196</u>	<u>\$ 817,897</u>

The gross impaired loans as at September 30, 2008 amount to \$5,848,765 (2007 - \$6,595,432).

Included in other income are recoveries on loans previously written off for the year ended September 30, 2008 amount to \$40,798 (2007 - \$52,765).

The allowance for impaired loans provided in the accounts of the credit union is, in all material respects, in accordance with the relevant by-law of the Deposit Insurance Corporation of Ontario.

6. Property and equipment			2008	2007
	Cost	Accumulated Amortization	Net	Net
Land	\$ 1,084,152	\$ 0	\$ 1,084,152	\$ 530,466
Buildings	1,915,210	1,426,469	488,741	526,659
Computer equipment	3,554,544	2,314,726	1,239,818	1,484,475
Office equipment	2,355,214	1,675,297	679,917	819,732
Leasehold improvements	<u>3,420,840</u>	<u>1,401,524</u>	<u>2,019,316</u>	<u>2,148,421</u>
	<u>\$ 12,329,960</u>	<u>\$ 6,818,016</u>	<u>\$ 5,511,944</u>	<u>\$ 5,509,753</u>

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

7. Future income taxes **2008** **2007**

The credit union's basic income tax rate is approximately 24% (2007 - 24%). Future income taxes relate primarily to capital cost allowance claimed for income tax purposes in excess of amortization on capital assets for financial reporting purposes, a portion of the allowance for impaired loans being non-deductible for income tax purposes, and differences between investment reporting for accounting and income tax purposes.

The components of the future income taxes at September 30, 2008 and 2007 are as follows:

Property and equipment	\$ 45,400	\$ 52,370
Benefit of loss carried forward	223,000	0
Allowance for impaired loans	(22,800)	2,789
Other comprehensive income	0	35,828
	<u>\$ 245,600</u>	<u>\$ 90,987</u>

The predecessor credit union Your Neighbourhood Credit Union Limited had losses which were not reflected on the comparative financial statements and did not reflect potential tax reductions available through the application of losses carried forward against future years' earnings otherwise subject to income tax. These losses expire as follows:

Expiry Date

2014	\$ 317,195
2015	317,377
2027	<u>274,536</u>
	<u>\$ 909,108</u>

The benefit of the losses carried forward was recognized in the year end September 30, 2008 as management considers there is virtual certainty in utilizing the losses carried forward.

8. Other assets **2008** **2007**

Accounts receivable	\$ 173,198	\$ 196,393
Accrued interest receivable	1,414,423	1,217,804
Prepaid expenses	<u>2,266,012</u>	<u>2,341,022</u>
	<u>\$ 3,853,633</u>	<u>\$ 3,755,219</u>

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

<i>9. Accounts payable and accrued charges</i>	2008	2007
Accrued interest on members' accounts	\$ 14,494,616	\$ 13,081,523
Other (including certified cheques)	<u>1,665,327</u>	<u>2,114,120</u>
	<u>\$ 16,159,943</u>	<u>\$ 15,195,643</u>

<i>10. Members' accounts</i>	2008	2007
Chequing accounts	\$ 56,544,703	\$ 46,822,351
Deposits		
Savings	66,370,315	67,314,818
Fixed rate, fixed term	188,225,650	168,010,690
Registered saving plans	75,540,933	69,178,065
Registered retirement income funds	18,324,101	17,844,164
Life insured deposits	<u>402,551</u>	<u>436,382</u>
	<u>\$ 405,408,253</u>	<u>\$ 369,606,470</u>

Term deposits

Outstanding term deposits for periods of one to five years generally may not be withdrawn, prior to maturity, without penalty.

Withdrawal privileges on all deposit accounts are subject to the overriding right of the Board of Directors to impose a waiting period.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

<i>11. Demand loans</i>	2008	2007
Central 1 Credit Union		
• Interest and principal due on maturity, rate at 3.82% due February 4, 2009 with an option to renew at prime for an additional 100 days on October 27, 2008.	\$ 7,000,000	\$ 0
• Interest and principal due on maturity, rate at 3.58%, due January 30, 2009, with an option to renew at prime for an additional 100 days on October 22, 2008.	3,000,000	0
Credit Union Central of Ontario	<u>0</u>	<u>14,000,000</u>
	<u>\$ 10,000,000</u>	<u>\$ 14,000,000</u>

The above demand loans were repaid on October 27, 2008 and October 22, 2008 and replaced with new demand loans in the amounts of \$6,000,000 and \$6,000,000 principal amount, with interest rates of 3.05% and 3.18%, respectively, due on March 4, 2009 and March 9, 2009 and with an option to renew on November 24, 2008 and November 27, 2008 at the prime interest rate in effect on that date for an additional 100 days.

The credit union has established a borrowing capacity for \$26,510,000 (2007 - \$29,652,000) (Canadian) and \$350,000 (2007 - \$300,000) (US). This borrowing capacity is secured by a general security agreement. At the year end, the amount of borrowing capacity utilized was \$10,000,000 (2007 - \$14,000,000).

<i>12. Interest on deposits</i>	2008	2007
Chequing accounts	\$ 529,287	\$ 615,878
Deposits		
Savings	769,781	471,401
Fixed Rate, fixed term	7,879,489	7,476,549
Registered saving plans	2,890,953	2,463,173
Registered retirement income funds	786,877	777,272
Life insured deposits	<u>1,468</u>	<u>2,243</u>
	<u>\$ 12,857,855</u>	<u>\$ 11,806,516</u>

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

<i>13. Share capital</i>	2008	2007
Membership Shares	\$ 290,300	\$ 616,097
Class B Investment Shares - Series 1 and 2	<u>4,417,459</u>	<u>4,623,134</u>
	<u>\$ 4,707,759</u>	<u>\$ 5,239,231</u>

The authorized share capital consists of an unlimited number of membership shares and an unlimited number of patronage shares.

Membership shares have an issue price of \$5.00. Members are required to have two shares. Membership shares may be redeemed subject to the credit union being in compliance with the capital adequacy requirements (note 14). As at September 30, 2008, there were 29,329 (2007 - 28,809) members.

The by-laws of the predecessor credit union Your Neighbourhood Credit Union Limited required a minimum of 10 membership shares with an issue price of \$5 each. During the year, the excess amount in membership shares was refunded to the members.

Former Grand River Credit Union Limited

Pursuant to an Offering Statement dated August 29, 2007, the credit union issued 1,500,000 Series 1 Class B Investment Shares. Series 1 Class B Investment Shares are non-cumulative, non-voting, non-participating special shares, which bear dividends at a rate established by the Board of Directors each year. The shares are redeemable at the option of the holder, subject to a maximum of 10% of the previous September 30 balance being redeemed during the year and subject to approval by the Board of Directors.

Pursuant to an Offering Statement dated September 28, 2001, the credit union issued 1,799,924 Series 2 Class B Investment Shares. Series 2 Class B Investment Shares are non-cumulative, non-voting, non-participating special shares, which bear dividends at a rate established by the Board of Directors each year. The shares are redeemable at the option of the holder, subject to a maximum of 10% of the previous September 30 balance being redeemed during the year and subject to approval by the Board of Directors.

Former Mitchell & District Credit Union Limited

Pursuant to an Offering Statement dated March 19, 1998, the credit union issued 1,493,500 Class B Investment Shares. Class B Investment Shares are non-cumulative, non-voting, non-participating special shares, which bear dividends at a rate established by the Board of Directors each year. The shares are redeemable at the option of the holder, subject to a maximum of 10% of the previous September 30 balance being redeemed during the year and subject to approval by the Board of Directors.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

13. Share capital (continued)

The Board of Directors declared a 4.20% (2007 - 4.60%) dividend to the holders of Series 1 and Series 2 Class B Investment Shares.

Shares may be withdrawn on demand on withdrawal from membership, subject to the Credit Union meeting capital adequacy requirements and the discretion of the directors who may require notice.

14. Capital adequacy

As at September 30, 2008, the credit union had regulatory capital of \$28,862,212 (2007 - \$28,019,085). In accordance with the requirements of the Act and accompanying Regulations, credit unions are required to maintain sufficient capital to meet two tests:

1. Leverage test

Regulatory capital, comprising membership shares, any other class of qualifying share capital that may be issued and retained earnings, must amount to at least 5.00% of total assets as at September 30, 2008. The leverage tests result at September 30, 2008 was 6.29% (2007 - 5.20% to 6.94%).

2. Risk-weighted assets test

Regulatory capital, comprising membership shares, any other class of qualifying share capital that may be issued and retained earnings, must amount to at least 8.00% of risk-weighted assets as at September 30, 2008. The risk weighting of assets is specified in Section 15 of the Regulations to the Act. The risk-weighted asset test result at September 30, 2008 was 18.58% (2007 - 10.17% to 22.6%).

At September 30, 2008, the credit union exceeded the minimum requirements of the Act and its Regulations with respect to the leverage and risk weighted-assets test.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

15. Commitments

Leases

The credit union has entered into lease agreements related to the Fairview Drive branch in Brantford, the Hespeler Road branch in Cambridge, the Fischer-Hallman Road branch in Kitchener, the Ontario Street branch in Stratford, the Malden Road branch in LaSalle and the Tecumseh Road branch in Windsor. Under the terms of the leases, the minimum lease payments for the next five years and subsequent are as follows:

2009	\$ 328,539
2010	316,244
2011	312,699
2012	247,304
2013	248,975
Thereafter	<u>1,298,783</u>
	<u>\$ 2,752,544</u>

The credit union has also contracted for the construction of a head office building of approximately 22,000 square feet, with a contract price of \$3,300,000 to be completed October 2009.

16. Fair value instruments

(a) Fair Value

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 that are not considered financial instruments, such as capital assets, prepaid expenses and future income taxes.

The estimated fair value amounts approximate the amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. 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. Because 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.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

16. Fair value instruments (continued)

(a) Fair Value

September 30, 2008	Fair Value	Book Value	Fair Value Over (Under) Book Value
Assets			
Cash resources	\$ 6,926,706	\$ 6,926,706	\$ 0
Loans to members	406,673,212	405,006,106	1,667,106
Investments	39,561,243	38,967,142	594,101
Other assets	1,587,621	1,587,621	0
Liabilities			
Members' deposits	407,685,208	405,408,253	2,276,955
Other liabilities	16,159,943	16,159,943	0
Liabilities qualifying as regulatory capital	4,707,759	4,707,759	0
September 30, 2007	Fair Value	Book Value	Fair Value Over (Under) Book Value
Assets			
Cash resources	\$ 12,223,396	\$ 12,223,396	\$ 0
Loans to members	351,960,073	353,418,073	(1,458,000)
Investments	51,692,993	51,692,993	0
Other assets	3,755,219	3,755,219	0
Liabilities			
Members' deposits	369,952,470	369,606,470	346,000
Other liabilities	15,195,643	15,195,643	0
Liabilities qualifying as regulatory capital	5,239,231	5,239,231	0

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

- (i) The fair values of cash resources, certain other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature;
- (ii) The fair value of investments is assumed to be equal to the estimated market value of investments provided in note 3;
- (iii) The estimated fair values of floating rate loans and floating rate deposits are assumed to be equal to the respective book values as the interest rates on these loans and deposits reprise to market on a periodic basis; and
- (iv) The estimated fair values of fixed rate loans and fixed rate deposits are determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

16. Fair value instruments (continued)

(b) Interest rate risk

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

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

September 30, 2008	Variable Rate	Less Than One Year	One to 7 Years	Non-rate Sensitive	Total	Effective Rate
Contractual rates of return						
Cash resources	\$ 0	\$ 0	0	\$ 6,926,706	\$ 6,926,706	0.00%
Loans to members	124,065,297	25,940,980	254,999,858	0	405,006,135	5.90%
Investments	5,498	32,261,828	0	6,699,798	38,967,124	2.79%
Members' deposits	131,122,708	148,848,493	125,437,053	0	405,408,254	3.14%
Discretionary dividend rates (note 13)						
Class B Bonus Shares	0	0	4,417,459	0	4,417,459	4.20%
Membership shares	0	0	0	290,300	290,300	0.00%
September 30, 2007	Variable Rate	Less Than One Year	One to 7 Years	Non-rate Sensitive	Total	Effective Rate
Contractual rates of return						
Cash resources	\$ 0	\$ 0	0	\$ 12,223,396	\$ 12,223,396	0.00%
Loans to members	89,030,245	15,016,543	249,371,285	0	353,418,073	6.19%
Investments	0	49,307,294	0	2,385,699	51,692,993	4.18%
Members' deposits	110,172,767	129,528,310	129,905,393	0	369,606,470	3.22%
Discretionary dividend rates (note 13)						
Class B Bonus Shares	0	0	4,623,134	0	4,623,134	4.60%
Membership shares	0	0	0	616,097	616,097	0.00%

(c) 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.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

16. Fair value instruments (continued)

At September 30, 2008, the credit union had U.S. dollar denominated liabilities of \$1,930,376 (2007 - \$1,462,268) and U.S. dollar denominated assets of \$1,387,528 (2007 - \$1,203,335).

17. Derivative instruments

Equity-linked deposits

The credit union has \$1,269,267 (2007 - \$1,354,876) of Index-Linked Term Deposit products outstanding to its members. These term deposits have maturities of three and five years and pay interest to the depositors, at the end of the term, based on the performance of various market indices. The Credit Union has entered into agreements with Credit Union Central of Ontario to offset the exposure to the indices associated with these products. The credit union pays a fixed amount on the face value of these term deposit products. At the end of the term, the credit union receives from the counterpart payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

The purpose of these agreements is to provide a hedge against market fluctuations. These agreements have fair values that vary based on the particular contract and changes in interest rates. The current replacement cost of these contracts amount to \$204,637 (2007 - \$337,423) at year end. At year end, these agreements did not qualify as effective hedge transactions.

At September 30, 2008, the credit union has unmerited premiums of \$63,283 (2007 - \$60,563) relating to payments made under its agreements. These amounts are being amortized on a straight-line basis over the term of the contracts to which they relate, which are from three to five years.

Interest Rate SWAP Agreements

The credit union has entered into interest rate swap agreements in order to manage exposure to fluctuating interest rates. The notional amounts of the swaps do not represent amounts exchanged between parties and are not a measure of the credit union's exposure resulting from the use of swaps. The amounts exchanged are based on interest rates applied to the notional amounts. The notional value of the interest rate swap agreements as at September 30, 2008 was \$26,000,000 in favour of an unrelated creditworthy third party, taking into account interest rates at that time.

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

18. Director and officer loans

As at September 30, 2008, the aggregate value of interest-bearing personal and mortgage loans outstanding to directors and officers totaled \$1,107,554 (2007 - \$2,748,871). These loans were granted under the same terms and conditions as loans to other members, and are included in Loans To Members on the balance sheet. There was no allowance for impaired loans required in respect of these loans.

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.

19. Board and committee remuneration

The Board Chair is remunerated at the rate of \$300 (2007 - \$250) per meeting, Committee Chairs receive \$270 (2007 - \$225) per meeting and Board and Committee members and Recording Secretary are paid \$240 (2007 - \$200) per meeting.

20. Pension plan

The credit union has a defined contribution pension plan covering all employees. The plan is a contributory plan with funding of benefits based on the related employee's earnings. Contributions vest after two years of service with the credit union. Once the contributions vest, employees may receive benefits upon retirement or termination of their employment. The credit union recognized an expense during the year relating to its portion of the contribution totaling \$190,446 (2007 - \$165,381).

Your Neighbourhood Credit Union Limited
Notes to the Financial Statements
September 30, 2008

21. Mortgage Securitizations **2008** **2007**

The credit union securitizes mortgages through the transfer of mortgage loans to a special purpose entity.

As of September 30, 2008, the aggregate value of securitized loans outstanding amounted to \$0 (2007 - \$16,103,000). The net gain on the sale of mortgages resulting from these securitizations is immediately recognized in the Statement of Earnings as "Non-interest income". None of the mortgage loans were delinquent at September 30, 2008. In addition, there were no credit losses incurred on the mortgages transferred in 2008.

The retained interests related to mortgage pools sold in the current year were measured using the key assumptions outlined in the table below. These assumptions are set as at the date of the securitization.

Weighted average life (in months)	0	55
Prepayment rate (average annual %)	0.00	9.60
Expected credit losses (% of portfolio)	0.00	1.00
Excess spread (%)	0.00	1.13
Residual cash flows discounted at (%)	0.00	5.00

The following table summarizes the Credit Union's securitization activity for the year ended September 30, 2008:

Principal value of mortgages sold	\$ 0	\$ 19,934,000
Net cash proceeds received	0	19,834,000
Retained rights to cash reserves	0	100,000
Retained rights to future excess spread	0	220,000
Pre-tax gain on sale	0	181,000
Retained interests	0	0

22. Comparative figures

The presentation of certain accounts of the previous year has been changed to conform with the presentation adopted for the current year.