

CREDIT UNION  
CENTRAL OF CANADA

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**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

DECEMBER 31/2007

# Financial Statements

## Management's Responsibility for Financial Information

The management of Credit Union Central of Canada ("Canadian Central") is responsible for the integrity, objectivity and consistency of the financial information presented in this annual report. This responsibility includes selecting appropriate accounting policies which are in accordance with Canadian generally accepted accounting principles and ensuring that the financial information is based on informed judgements and estimates. The Board of Directors has approved the consolidated financial statements for issuance to the members.

Management maintains the necessary system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records maintained.

The Board of Directors oversees management's responsibilities for financial statements through the Audit and Conduct Review Committees, which are composed solely of directors who are not officers or employees of Canadian Central.

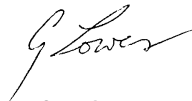
The Audit Committee conducts a detailed review of the consolidated financial statements with management and the independent auditors before recommending their approval to the Board of Directors.

Annually, the Superintendent of Financial Institutions Canada reviews the activities of Canadian Central, to the extent deemed necessary, to satisfy itself that provisions of the Cooperative Credit Associations Act (Canada), having reference to the safety of the interests of depositors and members of Canadian Central, are being duly observed and that Canadian Central is in sound financial condition.

Deloitte & Touche LLP, the independent auditors appointed by the members, have examined our consolidated financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.



**David Philips**  
President & Chief Executive Officer



**Gary Lowes**  
Vice President & Chief Financial Officer

## Auditors' Report to the Members of Credit Union Central of Canada

We have audited the consolidated balance sheet of Credit Union Central of Canada ("Canadian Central") as at December 31, 2007 and the consolidated statements of earnings, comprehensive income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of Canadian Central'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 consolidated financial statements present fairly, in all material respects, the financial position of Canadian Central as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**  
**Licensed Public Accountants**  
Toronto, Canada // February 6, 2008

# Consolidated Balance Sheet

Year ended December 31, 2007 (In thousands of dollars)

	2007	2006 (Restated) (Note 2)
<b>ASSETS</b>		
Cash	\$ 11,441	\$ 61
Short-term investments	–	17,242
Held-for-trading investments (Note 4)	25,632	–
Deposits with Bank of Canada	2,874	1,473
Cash in transit from financial institutions (Note 3)	365,374	202,861
Securities (Note 5)	4,351	12,956
Loans (Note 6)	145,876	22,946
Other loans and leases	61	170
Income taxes recoverable	2,713	949
Capital assets (Note 7)	535	619
Accrued interest and other assets	3,221	1,286
Assets – discontinued operations (Note 2)	–	84,879
	<b>\$ 562,078</b>	<b>\$ 345,442</b>
<b>LIABILITIES</b>		
Cash in transit to financial institutions (Note 3)	\$ 479,643	\$ 133,155
Deposits by members	45,263	93,036
Income taxes payable	–	88
Future income taxes (Note 10)	40	40
Dividends payable (Note 8)	2,371	1,664
Accrued interest and other liabilities	2,845	6,194
Liabilities – discontinued operations (Note 2)	–	79,824
	<b>530,162</b>	<b>314,001</b>
<b>MEMBERS' EQUITY</b>		
Share capital (Note 8)	27,725	27,726
Retained earnings	4,191	3,715
	<b>31,916</b>	<b>31,441</b>
	<b>\$ 562,078</b>	<b>\$ 345,442</b>

Approved by the Board:



**Michael Tarr**  
Director



**Rowland Kelly**  
Director

# Consolidated Statement of Earnings, Comprehensive Income and Retained Earnings

Year ended December 31, 2007 (In thousands of dollars)

	2007	2006 (Restated) (Note 2)
<b>REVENUE</b>		
Income from securities and short-term investments	\$ 861	\$ 1,076
Income from loans to members	1,359	1,097
Income from other loans and leases	7	10
Other revenue	93	411
	<b>2,320</b>	<b>2,594</b>
<b>EXPENSES</b>		
Interest	1,516	1,481
Salaries, benefits and variable compensation	4,590	4,064
Technology, administration and other	3,788	3,990
Amortization of capital assets	167	173
Cost-sharing recoveries (Note 15)	(8,235)	(7,569)
	<b>1,826</b>	<b>2,139</b>
<b>EARNINGS FROM CONTINUING OPERATIONS BEFORE SPECIAL STRATEGY COMMITTEE AND REBATE TO MEMBERS SPECIAL STRATEGY COMMITTEE</b>	<b>494</b>	<b>455</b>
Special Strategy Committee costs (Note 9)	2,962	740
Recoveries of Special Strategy Committee costs	(2,962)	(740)
<b>EARNINGS FROM CONTINUING OPERATIONS BEFORE REBATE TO MEMBERS</b>	<b>494</b>	<b>455</b>
<b>REBATE TO MEMBERS</b>		
Cost sharing assessments (Note 15)	171	157
<b>EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>323</b>	<b>298</b>
<b>INCOME TAXES</b> (Note 10)		
Current	343	570
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	<b>(20)</b>	<b>(272)</b>
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>	<b>2,086</b>	<b>811</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<b>2,066</b>	<b>539</b>
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<b>3,715</b>	<b>4,239</b>
<b>FINANCIAL INSTRUMENTS - TRANSITIONAL ADJUSTMENT</b>		
net of related income tax savings of \$8 (Note 1)	(15)	-
<b>DIVIDENDS</b> , net of related income tax savings of \$796 (2006 - \$601)	<b>(1,575)</b>	<b>(1,063)</b>
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 4,191</b>	<b>\$ 3,715</b>

# Consolidated Statement of Cash Flows

Year ended December 31, 2007 (In thousands of dollars)

	2007	2006 (Restated) (Note 2)
<b>NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Net earnings from continuing operations	\$ (20)	\$ (272)
Items not affecting cash		
Amortization of capital assets	167	173
	<b>147</b>	<b>(99)</b>
Changes in non-cash operating components		
Held for trading investments	(2,709)	-
Accrued interest and other assets	(1,935)	675
Income taxes (receivable) payable	(1,852)	(3,024)
Accrued interest and other liabilities	(3,349)	2,136
Net outflow of cash from operating activities of continuing operations	<b>(9,698)</b>	<b>(312)</b>
Net inflow of cash from operating activities of discontinued operations	3,873	(342)
	<b>(5,825)</b>	<b>(654)</b>
<b>FINANCING</b>		
Issuance of share capital	117	1
Redemption of share capital	(118)	-
Dividends paid	(1,664)	(1,664)
Income tax savings resulting from dividends declared	796	601
Net outflow of cash from financing activities of continuing operations	<b>(869)</b>	<b>(1,062)</b>
Net inflow of cash from financing activities of discontinued operations	82,082	9,666
	<b>81,213</b>	<b>8,604</b>
<b>INVESTING</b>		
Securities	-	(3,966)
Amortization of premiums on corporate debentures	-	(17)
Loans	(4,257)	41
Other loans and leases	110	43
Purchase of capital assets	(83)	(54)
Net outflow of cash from investing activities of continuing operations	<b>(4,230)</b>	<b>(3,953)</b>
Net (outflow) inflow of cash from investing activities of discontinued operations	(78,815)	7,199
	<b>(83,045)</b>	<b>3,246</b>
<b>NET (OUTFLOW) INFLOW OF CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	(7,657)	11,196
<b>NET CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	18,241	7,045
<b>NET CASH AND CASH EQUIVALENTS, END OF YEAR (Note 16)</b>	<b>\$ 10,584</b>	<b>\$ 18,241</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Interest paid	\$ 5,740	\$ 6,811
Income taxes (received) paid	\$ (1,000)	\$ 3,298

# Notes to the Consolidated Financial Statements

December 31, 2007

## 1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Subsection 292(4) of the Cooperative Credit Associations Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below.

### Basis of presentation

The consolidated financial statements include the accounts of Credit Union Central of Canada ("Canadian Central") and those of its investees which it controls and for which it has the right and ability to obtain future economic benefits and for which it is exposed to the related risks of ownership.

Canadian Cooperative Agricultural Financial Services and Canadian Cooperative Leasing Services, both members of Canadian Central, are deemed to be subsidiaries, notwithstanding the nominal shareholdings which Canadian Central has in these members, by virtue of the fact that Canadian Central controls them and has the right and ability to obtain future economic benefits and is exposed to the related risks of both organizations. The nominal shareholdings which these two members have in Canadian Central have been eliminated from reported share capital, and other intercompany transactions have been eliminated, as well.

On October 12, 2007 Canadian Cooperative Agricultural Financial Services sold the businesses of Agrifinance and AgriCard to AgriFinancial Canada Corp. and Agrilease Canada Corp. ("AgriFinancial"), newly formed subsidiaries of C.A. Bancorp Inc. a publicly traded Canadian merchant bank and asset manager.

Subsequent to the sale, the assets of Canadian Cooperative Agricultural Financial Services consist primarily of tax related assets and amounts related to the sale due to the Cooperative from AgriFinancial. The prior year's results have been presented on a comparative basis.

CUIC Inc., operating as *CUSOURCE*<sup>®</sup> Credit Union Knowledge Network, is wholly owned by Canadian Central, but is carried at cost in these financial statements due to the Governance Agreement, which provides that it be operated as a not-for-profit organization and that Canadian Central have no control or risks or rewards of ownership.

Canadian Central also holds 100% of the shares of Cancred Lands Limited, an inactive company.

### Capital assets

Capital assets are recorded at cost. Assets costing less than \$2,000 each are expensed in the period acquired. Amortization is calculated using the straight-line method at the following rates:

Computer equipment	3 years
Computer software and licenses	3 years
Leasehold improvements	9 years (lease term)
Furniture and equipment	5 years

### Income taxes

The asset and 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 bases 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.

### Use of estimates

The preparation of Canadian Central's financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

### **Financial instruments**

On January 1, 2007 Canadian Central adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges.

### **Comprehensive income**

Section 1530 establishes standards for the reporting and display of Comprehensive income which is comprised of Net Income and Other Comprehensive Income and represents changes in Shareholders' Equity during a period arising from transactions and other events and circumstances with non-owner sources. Other Comprehensive Income ("OCI") includes unrealized gains and losses on financial assets classified as available for sale, as well as certain exchange gains and losses on the translation of assets and liabilities, and other amounts deferred for later recognition in the income statement due to certain hedge relationships. This section requires the presentation of a statement of Comprehensive Income and its components with comparable importance to the income statement and balance sheet.

### **Recognition and measurement**

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. All financial instruments, including derivatives, are measured at fair value on initial recognition except for certain related party transactions, and recognized on the balance sheet. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in Net Income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recognized in Other Comprehensive Income. Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading as set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliable fair values and are subject to additional conditions and disclosure requirements as set out by the Office of the Superintendent of Financial Institutions Canada.

### **Hedges**

Section 3865 updates AcG-13 Hedging Relationships to incorporate on Balance Sheet hedge accounting, but retains previous documentation and effectiveness requirements. It also establishes the standards for when and how hedge accounting may be applied.

### **Impact of adoption on Canadian Central**

An evaluation was made of the assets and liabilities of Canadian Central as of January 1, 2007. The vast majority of financial assets were classified as Loans and Receivables and financial liabilities classified as Other Financial Liabilities. These instruments are, as a result, measured at amortized cost. However, Canadian Central classified its bond and money market securities as held-for-trading which are measured at fair value with gains and losses measured through Net Earnings. All financial instruments were classified on the date of adoption, January 1, 2007. Existing financial instruments were "re-measured" on that date with the offsetting adjustment to opening Retained Earnings. As a result of this process, Canadian Central recorded a transition adjustment of \$15,000 (net of income taxes of \$8,000) reducing its opening Retained Earnings balance by that amount. There were no transition adjustments to Accumulated Other Comprehensive Income as at January 1, 2007. As of December 31, 2007 Canadian Central was not party to any hedging relationships.

### **Held-for-trading investments**

Held-for-trading investments are classified as held-for-trading and are recorded at fair value on the balance sheet. Realized and unrealized gains and losses and interest income on Held-for-trading investments are recorded in Income from securities and short-term investments. Fair value is determined based on quoted market prices in an active market. When the market is not active, fair value is determined using a valuation technique that makes maximum use of inputs observed from markets.

# Notes to the Consolidated Financial Statements

## Securities

Securities are classified as available-for-sale and are recorded at cost because they are co-operative investments that do not have reliably measurable fair values. Realized gains and dividend income are recorded in Income from securities and short-term investments.

Prior to January 1, 2007 securities and short-term investments were recorded at amortized cost and interest income was recorded in Income from securities and short-term investments.

## Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards became effective for Canadian Central on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

## 2. Discontinued Operations

On October 12, 2007 AgriFinancial purchased substantially all of the assets of Canadian Cooperative Agricultural Financial Services for \$89.3 million, which included a premium over the book value of the assets of \$1.8 million. The purchase and closing costs were financed by approximately \$78 million of debt, including the assumption of certain liabilities, and the investment of approximately \$11 million of equity.

As at December 31, 2006 the carrying amounts of the major classes of assets and liabilities included as part of the disposal group are as follows:

(In thousands of dollars)

	<b>2006</b>
Assets – discontinued operations	
Cash	\$ 156
Loans and leases receivable	82,082
Capital assets	284
Future income taxes	2,310
Other assets	47
	<b>\$ 84,879</b>
Liabilities – discontinued operations	
Loans payable	\$ 78,815
Accounts payable & accrued interest	45
Other liabilities	964
	<b>\$ 79,824</b>

A premium over the book value of the assets of \$1,771,000 was included in the purchase price. This premium is included in Net Earnings from Discontinued Operations. Purchase and closing costs including legal and consulting costs totalling \$423,000 are also included in Net Earnings from Discontinued Operations. The components of Net Earnings from Discontinued Operations are as follows:

(In thousands of dollars)

	2007	2006
<b>REVENUE</b>		
Income from loans and leases	\$ 7,793	\$ 10,060
<b>EXPENSES</b>		
Interest	3,369	4,001
Salaries, benefits and variable compensation	1,487	2,135
Technology, administration and other	1,367	1,641
Other expenses	912	2,060
	<b>7,135</b>	<b>9,837</b>
Insurance recovery	-	224
Premium on sale of assets	1,771	-
Expenses related to sale of assets	423	-
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>2,006</b>	<b>447</b>
Income tax recovery	(80)	(364)
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>	<b>\$ 2,086</b>	<b>\$ 811</b>

### 3. Cash In Transit

Canadian Central acts as the Group Clearer for cash in transit that arises from the clearing settlement system for a group of its member provincial credit union centrals (see Note 13).

The balance sheet of Canadian Central has separately disclosed Cash in transit from financial institutions as an asset and Cash in transit to other financial institutions as a liability.

Canadian Central has a line of credit facility with the Bank of Canada in respect of its function as direct clearer on behalf of five Provincial Centrals in the Canadian Payments Association. This line of credit is limited by, and secured with government-guaranteed securities lodged by the Provincial Centrals.

### 4. Held-For-Trading Investments

(In thousands of dollars)

	2007	
	Stated Value	Fair Value
Short-term investments	\$ 14,331	\$ 14,333
Corporate debentures	11,687	11,299
	<b>\$ 26,018</b>	<b>\$ 25,632</b>

Held-for-trading investments include money market instruments with maturities ranging up to 90 days and corporate debentures that mature within 3 years. The money market instruments typically pay interest at maturity while the corporate debentures typically pay interest on a semi-annual basis. These instruments earn interest at a weighted average interest rate of 4.62 % (2006 – 4.34%). With the exception of non-bank sponsored asset-backed commercial paper, fair value is determined based on quoted market prices.

# Notes to the Consolidated Financial Statements

Canadian Central holds \$2,508,000 of non-bank sponsored asset backed commercial paper ("ABCP"). This instrument did not settle at its scheduled maturity date and there has been no active trading of ABCP since mid-August 2007.

On September 6, 2007 a pan-Canadian investors committee consisting of major investors was formed. The committee was created to propose a solution to the liquidity problem affecting the ABCP market. A Standstill Agreement is in place that commits investors not to take any action that would precipitate an event of default. It is anticipated that the restructuring of the ABCP will occur in March 2008 if approval by investors is obtained. This approval is expected to be requested on a trust by trust basis most likely during February 2008.

The valuation technique used by Canadian Central to estimate the fair value of its investment in ABCP at December 31, 2007 incorporates probability weighted discounted cash flows considering the best data available. In forecasting the expected future cash flows Canadian Central has made assumptions as to the likelihood of the successful completion of the restructuring process, the anticipated terms and conditions of the restructured securities, and market yield expectations on the restructured securities. Additionally Canadian Central has made assumptions as to the liquidation value of its holdings in the event the restructuring is unsuccessful.

Canadian Central has recognized a charge to income of \$330,000 at December 31, 2007 to reflect its forecast of the expected future cash flows on its ABCP holdings. Continuing uncertainty with respect to the timing and amount of future cash flows on ABCP and on the outcome of the restructuring process could give rise to a material change in the value of Canadian Central's ABCP holdings which would impact earnings in future periods. The total unrealized change in fair value recognized in net income for instruments designated as held-for-trading was a loss of \$386,000.

## 5. Securities

Securities include co-operative investments of \$4,351,000 (2006 – \$4,351,000) that are classified as available-for-sale and recorded at cost because they do not have reliably measurable fair values. These investments have indefinite terms.

## 6. Loans

(In thousands of dollars)

	2007	2006
Provincial Centrals	\$ 141,453	\$ 22,780
AgriFinancial Canada Corporation	4,137	–
CUIC Inc.	276	156
Other members	10	10
	<b>\$ 145,876</b>	<b>\$ 22,946</b>

All loans to Provincial Centrals are due within one month. At December 31, 2007, Canadian Central has granted lines of credit to Provincial Centrals for operating purposes in the aggregate amount of \$403,500,000 (2006 – \$403,500,000), including amounts loaned. Canadian Central has also granted lines of credit to CUIC Inc. for \$250,000 (2006 – \$250,000) and to AgriFinancial Canada Corporation for \$31,385,000 (2006 – \$nil).

Pursuant to the terms of the National Liquidity Fund Agreement, Canadian Central has immediate access to the liquidity pool assets, segregated and held by Provincial Centrals, to enable it to fulfill its current responsibilities as a direct clearer of the Bank of Canada and a member of the Canadian Payments Association.

## 7. Capital Assets

(In thousands of dollars)

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 630	\$ 562	\$ 68	\$ 33
Computer software and licenses	41	14	27	41
Furniture and equipment	676	536	140	194
Leasehold improvements	511	211	300	351
	<b>\$ 1,858</b>	<b>\$ 1,323</b>	<b>\$ 535</b>	<b>\$ 619</b>

## 8. Share Capital

(In thousands of dollars)

	2007		2006	
	Shares	Amount	Shares	Amount
Shares without par value Authorized	<b>2,500,000</b>	<b>N/A</b>	<b>2,500,000</b>	<b>N/A</b>
Issued (in thousands of dollars except share amounts)	<b>277,256</b>	<b>\$ 27,725</b>	<b>277,266</b>	<b>\$ 27,726</b>

On approval of the Board of Directors, shares are redeemable at the lower of fair market value and the amount paid thereon pursuant to provisions in Canadian Central's by-laws. As required by the Cooperative Credit Associations Act, such redemptions are limited in any fiscal year to 1% of the issued shares outstanding at the beginning of the fiscal year. Any redemption in share capital exceeding this amount requires regulatory approval. Canadian Central has also made a commitment to the Office of the Superintendent of Financial Institutions ("OSFI") to maintain a consolidated capital level of \$31,700,000 for the eighteen month period ending April 30, 2009, during which Canadian Central has agreed to provide a line of credit to AgriFinancial.

During 2007, 1,179.9 shares were redeemed (2006 – nil shares) for \$117,990. In 2007, 1,169.9 shares were issued (2006 – ten shares) for \$116,990 (2006 – \$1,000).

Dividends are payable at the discretion of the Board of Directors. The Board of Directors approved a dividend payment of 8.55% to shareholders of record on December 22, 2007 in the amount of \$2,371,173 payable on February 22, 2008 (2006 – \$1,663,662).

Dividends payable in respect of share capital are deductible in the determination of taxable income and the resulting tax savings of \$796,056 (2006 – \$600,915) are netted from the dividends in the non-consolidated statement of earnings, comprehensive income and retained earnings.

## 9. Special Strategy Committee

The Special Strategy Committee was formed by the Board of Directors for the purpose of planning the credit union system's response to both the opportunities and challenges that are presented by potential bank mergers. Costs incurred in 2007 for this project amounted to \$2,962,000 (2006 – \$740,000) and were assessed to the Provincial Centrals under a cost sharing formula.

## 10. Income Taxes

The total income tax provision in the consolidated statement of earnings, comprehensive income and retained earnings (deficit) is at a rate less than the combined federal and provincial statutory income tax rates as follows:

# Notes to the Consolidated Financial Statements

(In thousands of dollars)

	2007		2006	
Income taxes at statutory rates	\$ 841	36.1%	\$ 269	36.1%
Permanent differences	16	0.7%	15	2.0%
Taxable temporary differences	(60)	(2.6%)	(83)	(11.2%)
Net tax benefit from capital gain	(366)	(15.7%)	-	0.0%
Net tax benefit from losses not recognized	336	14.4%	-	0.0%
Other items – net	(504)	(21.6%)	5	0.7%
<b>Income tax expense</b>	<b>\$ 263</b>	<b>11.3%</b>	<b>\$ 206</b>	<b>27.6%</b>
Income tax expense from continuing operations	\$ 343		\$ 570	
Income tax recovery from discontinued operations	(80)		(364)	
	<b>\$ 263</b>		<b>\$ 206</b>	

The effects of temporary differences, which give rise to the future income tax liability, are as follows:

	2007	2006
Future income tax liability		
Capital gain – share exchange	\$ 40	\$ 40

## 11. Interest Rate Sensitivity

Canadian Central has established policies and related reporting processes to manage its exposure to fluctuating interest rates (interest rate risk) and exposure to financial loss resulting from the failure of a party to honour its financial or contractual obligations (credit risk). A source of Canadian Central's income for 2007 was financial margin, which is the difference between interest earned on investments and loans and interest paid on deposits, borrowings and capital.

## 12. Commitments and Guarantees

Canadian Central is a Group Clearer under the rules of the Canadian Payments Association ("CPA"). In addition to Canadian Central, the members of the Canadian Central Group are Credit Union Central of British Columbia, Credit Union Central Alberta Limited, Credit Union Central of Saskatchewan, Credit Union Central of Manitoba, and Credit Union Central of Ontario (the "Centrals"). Under the rules of the CPA, Canadian Central:

- (a) guarantees payment of payment items drawn on or payable by the Centrals and their member credit unions; and
- (b) must give the CPA at least thirty (30) days prior notice before it can make a change in the composition of the Canadian Central Group and cease acting as group clearer for a Central.

Canadian Central is committed to this contingent guarantee under the Canadian Central Group Clearing Agreement (the "Group Clearing Agreement"). Pursuant to the Group Clearing Agreement, the Centrals, severally, indemnify Canadian Central for all payment items drawn on or payable by the Central or its member credit unions and, in the event of the failure of a Central to honour its guarantee, the remaining Centrals, jointly and severally, indemnify Canadian Central for all payment items drawn on or payable by any Central or its member credit unions. Canadian Central is committed to annual rental payments for leased premises as noted below.

2008	\$ 573,156
2009	585,053
2010	597,079
2011	630,898
2012	643,191
	<b>\$ 3,029,377</b>

### 13. Clearing System Activity

Canadian Central performs several important roles within the credit union clearing system. These include activities relating to Group Clearing Agreements with Members. The following summarized balance sheet isolates the financial impact of these activities. All balances represent items with a settlement term of less than 90 days.

(In thousands of dollars)

	2007		
	Balance Sheet	Clearing System Balances	Non-Clearing Balance Sheet
<b>ASSETS</b>			
Cash	\$ 11,441	\$ 11,344	\$ 97
Held-for-trading investments	25,632	3,966	21,666
Deposits with Bank of Canada	2,874	2,874	-
Cash in transit from financial institutions	365,374	365,374	-
Securities	4,351	-	4,351
Loans	145,876	141,453	4,423
Other	6,530	11	6,519
<b>TOTAL ASSETS</b>	<b>\$ 562,078</b>	<b>\$ 525,022</b>	<b>\$ 37,056</b>
<b>LIABILITIES &amp; MEMBERS' EQUITY</b>			
Cash in transit to financial institutions	\$ 479,643	\$ 479,643	\$ -
Deposits by members	45,263	45,248	15
Other	5,256	131	5,125
<b>TOTAL LIABILITIES</b>	<b>530,162</b>	<b>525,022</b>	<b>5,140</b>
<b>MEMBERS' EQUITY</b>	<b>31,916</b>	<b>-</b>	<b>31,916</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 562,078</b>	<b>\$ 525,022</b>	<b>\$ 37,056</b>

(In thousands of dollars)

	2006		
	Balance Sheet	Clearing System Balances	Non-Clearing Balance Sheet
<b>ASSETS</b>			
Cash	\$ 61	\$ -	\$ 61
Short-term investments	17,242	2,330	14,912
Deposits with Bank of Canada	1,473	1,473	-
Cash in transit from financial institutions	202,861	202,861	-
Securities	12,956	-	12,956
Loans	22,946	22,780	166
Other, including discontinued operations	87,903	26	87,877
<b>TOTAL ASSETS</b>	<b>\$ 345,442</b>	<b>\$ 229,470</b>	<b>\$ 115,972</b>
<b>LIABILITIES &amp; MEMBERS' EQUITY</b>			
Cash in transit to financial institutions	\$ 133,155	\$ 133,155	\$ -
Deposits by members	93,036	93,021	15
Other, including discontinued operations	87,810	3,294	84,516
<b>TOTAL LIABILITIES</b>	<b>314,001</b>	<b>229,470</b>	<b>84,531</b>
<b>MEMBERS' EQUITY</b>	<b>31,441</b>	<b>-</b>	<b>31,441</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 345,442</b>	<b>\$ 229,470</b>	<b>\$ 115,972</b>

# Notes to the Consolidated Financial Statements

## 14. Borrowing Limit and Lines of Credit

Aggregate borrowings, deposits accepted and debt guarantees granted may not exceed 20 times total consolidated members' equity. At December 31, 2007 such obligations outstanding were approximately 16.45 (2007 – 9.7) times total consolidated members' equity.

Canadian Central has available lines of credit for borrowing in the amount of \$1,000,000.

## 15. Related Party Transactions

Canadian Central, as a financial co-operative, conducts essentially all of its transactions, except security transactions and external borrowings, with its members and, under agreement, provides administrative and financial services and support to Canadian Cooperative Agricultural Financial Services and Canadian Cooperative Leasing Services, both members and subsidiaries of Canadian Central. Canadian Central also provided services to and received services from CUIC Inc., a wholly owned subsidiary. In addition, Canadian Central undertakes various cost-sharing programs, which are member-funded based on accepted formulas, for the benefit of its members.

The Board of Directors approved a rebate of cost sharing assessments of \$171,000 (2006 – \$157,000) which will be paid to participants based on the assessment support formula for specific products and services. The payment of the rebate is a result of income and cost sharing recoveries exceeding the costs of services provided to members.

## 16. Net Cash and Cash Equivalents

Transactions in the following accounts with an initial term to maturity of 90 days or less are deemed to be cash equivalents.

(In thousands of dollars)

	2007	2006
Cash	\$ 11,441	\$ 61
Short-term investments	–	17,242
Held-for-trading investments	14,333	–
Deposits with Bank of Canada	2,874	1,473
Cash in transit from financial institutions	365,374	202,861
Loans	141,453	22,780
Cash in transit to financial institutions	(479,643)	(133,155)
Deposits by members	(45,248)	(93,021)
	<b>\$ 10,584</b>	<b>\$ 18,241</b>

## 17. Pension Plan

Canadian Central and its employees contribute to a defined contribution pension plan. The pension expense for the year ended December 31, 2007 was \$167,000 (2006 – \$167,000).

# Shareholder Members

As of December 31, 2007

## **Class A: Credit Union Central and Federation Class**

Credit Union Central of British Columbia  
Credit Union Central Alberta Limited  
Credit Union Central of Manitoba  
Credit Union Central of New Brunswick  
Credit Union Central of Newfoundland and Labrador  
Credit Union Central of Nova Scotia  
Credit Union Central of Ontario  
Credit Union Central of Prince Edward Island  
Credit Union Central of Saskatchewan  
L'Alliance des caisses populaires de l'Ontario limitée

## **Class B: Trade Associations**

Central Alliance for Newfoundland and Labrador  
Credit Unions Limited

## **Class C: Corporation Class**

Canadian Alternative Investment Co-op  
Canadian Co-operative Association  
Canadian Co-operative Agricultural Financial Services  
Canadian Cooperative Leasing Services  
COLAC (Confederación Latinoamericana  
de Cooperativas de Ahorro Y Crédito)  
Concentra Financial Services Association  
Co-op Atlantic  
Cooperative EFT Development Association (CEDA)  
Co-operative Housing Federation of Canada  
Co-operators General Insurance Company  
Co-operators Life Insurance Company  
CUMIS General Insurance Company  
CUMIS Life Insurance Company  
CUNA Mutual Insurance Society  
Farmers Co-operative Dairy Limited  
Fogo Island Co-operative Society  
Gay Lea Foods Co-operative Limited  
National Association of Canadian Credit Unions (NACCU)  
North Carolina Credit Union League  
Scotian Gold Co-operative Limited  
United Farmers of Alberta Co-operative Limited  
U. S. Central Credit Union  
Western Co-operative Fertilizers Limited



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