

CREDIT UNION CENTRAL OF ONTARIO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

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RISK MANAGEMENT AND CONTROL PRACTICES

Overview

Credit Union Central of Ontario Limited (“Central”) strategically manages credit and market risks to prudently earn competitive returns at acceptable risk levels from our various business activities. Risk management and control practices are designed to monitor and control the inherent risks in Central’s business of providing financial support services to member credit unions. These risk exposures include credit risk, liquidity risk, market risk, foreign currency risk and operating risk.

Risk management strategies are undertaken within approved policy limits set by Central’s Board of Directors (the “Board”). These policies are reviewed regularly, at least annually, to ensure that, with changes in Central’s business, all significant risks are identified and adequate risk management processes are in place. The Board and management have invested considerable time and resources in building a risk management and control structure that allows Central to disaggregate and mitigate its risk exposures. Within strictly defined risk tolerance levels and carefully supervised operational parameters, the Board delegates to management the authority to select which exposures Central will transfer, those it will hedge, and which it will actively manage for profitable performance.

Risk management practices are designed to mitigate risk exposures inherent in Central’s business to acceptable levels in response to the level of expected losses. Risk management systems however do not typically provide absolute assurance that unexpected low probability events are fully mitigated. Therefore, Central also maintains an adequate level of capital as a cushion to provide protection against the various residual risks that may remain so that Central can absorb unexpected losses and remain viable as a going concern. As described in note 4(b), in 2007, Central recorded an unexpected decline in the fair value of asset-backed commercial paper and in accordance with Central’s by-law which authorizes the Board of Directors to call for additional capital, on November 15, 2007, each member was required to maintain an additional 0.20% of its assets in Central shares.

Central developed an Enterprise Risk Management (“ERM”) framework and established a Risk Committee for the purpose of aligning business objectives, risks, and control to further support Central in achieving its mission and strategies. The framework serves to:

- Identify Central’s risk philosophy and risk tolerance;
- Outline the organizational model, including roles and responsibilities;
- Document Central’s common business risk language;
- Identify, prioritize and assess principal business risks;
- Guide strategies to implement action plans.

The oversight role and responsibilities of the Risk Committee have been assigned to Central’s senior management team to complement other well established management committees whose focus is specific to key risks, such as the Credit Committee, Investment Advisory Committee, Asset and Liability Management Committee and Delinquency Committee.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour financial or contractual obligations. Credit risk arises from traditional lending and investment activity and from settling payments between Central and its counterparties associated with both on- and off-balance sheet financial instruments.

Central's policies establish limits for acceptable levels and areas of credit risk, establish clearly defined accountabilities for decision making and determining credit worthiness, and provide for diversification to avoid excessive risk concentrations.

Consistent with its core mandate as the system's liquidity manager, Central's investment portfolio is composed of liquid assets of a high credit quality, the selection of which is overseen by the Investment Advisory Committee ("IAC"). IAC ensures that the portfolio is adequately diversified across and within eligible asset classes and balances Central's desire for prudent levels of reserve liquidity with the need to generate an adequate return on member share capital.

Involvement in commercial lending has been restricted to syndications with member credit unions under the Loan Syndication Program to respond to local members' needs. Commercial loans are evaluated by a skilled commercial lender and are subject to review by an objective Credit/Delinquency Committee. A credit scoring system is used to quantify and evaluate the risks inherent in proposed credits. Annually, the status of each credit is reviewed in the same manner as a new credit proposal.

The Credit/Delinquency Committee is responsible for monitoring problem loans, ensuring that appropriate action is taken and that allowances are adequate to cover potential losses. Specific allowances are established for exposures based on analysis of individual accounts to reduce the carrying value of an impaired loan to its estimated realizable amount. General allowances for loss are also established to absorb probable credit losses on the aggregate exposures in each of Central's business lines for which losses are not yet specifically identified on an item-by-item basis.

Liquidity Risk

Liquidity risk arises from fluctuations in cash flows. Liquidity management policies ensure that Central is able to prudently meet its financial obligations as they come due.

In addition, Central's core financial function is to maintain liquid assets for its member credit unions and to be the manager of liquidity for the system. The mandate for system liquidity is managed in three tiers: the local credit union level, the provincial level and the national level. On the local level, credit unions maintain cash resources and liquid investments to meet cash flow requirements. On the provincial level, Central monitors the demand for liquidity from the member credit unions and maintains an adequate supply of cash resources and high quality liquid investments and also maintains a line of credit with Credit Union Central of Canada ("CUCC") to support provincial liquidity requirements. On a national basis, through CUCC, Central participates in the national liquidity program, which provides for the movement of liquidity between provincial Centrals. Central's Liquidity Plan contains a crisis plan structured to react to

escalating levels of systemic liquidity demands, and is reviewed by the Audit Committee and Board, no less frequently than annually.

Market Risk

Market risk is the potential financial impact of fluctuations in market rates on the securities portfolio, and includes changes in interest rates, equity prices, and foreign exchange rates. Structural interest rate risk arises from mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice at various points in time. Central's exposure to interest rates changes continually as a result of member term preferences, daily business activities and risk management initiatives. Central's exposure to equity market fluctuations is not significant.

The Asset Liability Management Committee ("ALCO") regularly monitors market rate risk and establishes strategies to achieve a balance between maximizing net interest income and reducing the risk to earnings from adverse movements in market rates. This is accomplished by managing Central's risk profile within predetermined limits, taking into consideration expected changes in the level of interest rates and shape of the yield curve.

Central's primary analytical techniques to measure and monitor interest rate risk are income sensitivity, Dollars-at-Risk (changes in market value) and Value-at-Risk ("VaR") analyses.

Interest rate sensitivity analysis measures the difference between the amount of assets and liabilities and off-balance sheet instruments that mature or reprice at a specific point in time. Based on Central's interest rate sensitivity position at December 31, 2007, and assuming no management action, an immediate 1% increase in interest rates across all repricing dates would lower net interest income by approximately \$858,000 over the next 12 months.

Dollars-at-risk analysis measures the sum of the changes in market value of each exposure along the yield curve to a one basis point movement in interest rates -- all other points are held constant. At December 31, 2007, this measurement was approximately \$2,033.

VaR analysis allows Central to estimate the maximum potential loss in market value from adverse changes in interest rates based on statistical confidence levels. Central measures the changes in portfolio values on a daily basis and monitors the VaR on a daily basis against policy limits and monthly loss limits. As at December 31, 2007, based on a 95% confidence level, the one-day VaR was approximately \$192,000.

Simulation modelling and VaR allow Central to analyze interest rate risk dynamically. Simulation modelling incorporates pricing strategies, volume and mix of new business, and future changes in interest rates. The models are continually monitored and updated to assist in assessing potential investment strategies. Central also stress tests its portfolio by estimating the resulting changes in market value that might occur during periods of extreme price movements. These scenarios are drawn both from actual historic and hypothetical time series.

Foreign Exchange Rate Risk

Central has assets denominated in foreign currencies and buys and sells these currencies to meet member credit unions' needs. Central could be exposed to fluctuations in foreign exchange rates when assets in a foreign currency are either greater than or less than the liabilities in that currency.

Central manages its foreign exchange risk within clearly established policies and procedures to minimize foreign exchange rate risk.

Operating Risk

Operating risk is the potential for loss caused by internal or external events as a result of systems or procedural failures, errors, fraud or natural disaster.

While operating risk is inherent to each of Central's business activities, the exposure to Central is minimized by ensuring that the appropriate infrastructure, controls, systems and people are in place. Key policies and procedures used in managing operating risk involve segregation of duties, delegation of authority, risk monitoring, and financial and managerial reporting. Central's organizational structure clearly segregates trading, monitoring and processing functions. As a result, traders have no access to the transaction processing, confirmation or payment functions. Similarly, commercial loan origination is segregated from credit adjudication and administration.

Central also maintains extensive business continuity plans to ensure that critical business functions will continue under adverse conditions and that normal operations will be restored effectively in the event of a major disaster. Business continuity plans are updated and evaluated regularly including scenario testing with assigned personnel.

Central's operations are subject to ongoing review by external and internal audit and periodic examination by both federal and provincial regulators. From time to time, Central also engages expert third parties to analyze its operations and controls and make recommendations based on industry standards of best practices.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The consolidated financial statements and all information contained in this annual report were prepared by the management of Credit Union Central of Ontario Limited ("Central"), which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles. The financial statements also conform to the accounting requirements of the Superintendent of Financial Institutions Canada and are based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains the necessary system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training employees, written policies and procedures, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility. These controls are monitored by Central's internal audit firm, Deloitte & Touche LLP, who regularly review all aspects of Central's operations.

Central's Board of Directors oversees management's responsibilities for the financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the financial statements with management and the internal and external auditors before recommending their approval to the Board of Directors. The Conduct Review Committee reviews all related party transactions and ensures any such transaction that might materially affect the stability or solvency of Central is identified and reported to the Board of Directors. The Board, the Audit Committee and the Conduct Review Committee are composed entirely of directors who are neither management nor employees of Central.

Central is regulated federally under the *Cooperative Credit Associations Act* (Canada) by the Office of the Superintendent of Financial Institutions Canada and provincially under the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) by the Financial Services Commission of Ontario. On an annual basis, the Office of the Superintendent of Financial Institutions Canada or the Financial Services Commission of Ontario conducts an examination to assess the operations of Central and its compliance with statutory requirements and sound business practices.

KPMG LLP, external auditors appointed by Central's member credit unions, have examined the consolidated financial statements of Central in accordance with Canadian generally accepted auditing standards. The auditors have full and free access to, and meet regularly with, the Audit Committee, with and without management present, to discuss their audit and matters relating to financial statement presentation, internal controls and audit procedures.



Howard A. Bogach
President and Chief Executive Officer
February 8, 2008



James M. MacDonald, CA
Chief Financial Officer

REPORT OF THE AUDIT COMMITTEE

Central's Audit Committee was formed as a committee of the Board of Directors pursuant to Section 125 of the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) and Section 199 of the *Cooperative Credit Associations Act* (Canada). The committee, which consists of five directors, has oversight responsibility for Central's financial reporting processes and the quality of its financial reporting. The committee operates within a written mandate that prescribes the committee's objectives and responsibilities and how it functions.

In discharging its responsibility for financial reporting in 2007, the committee continued to focus on three areas: reviewing key financial disclosure reports, ensuring the adequacy of internal control and overseeing the work of Central's external auditors.

The committee paid special attention to standards of accountability and corporate governance and took action to review Central's practices where applicable. The committee continues to monitor and adopt, as appropriate, new regulatory requirements and emerging best practices. The president and chief executive officer, as well as the chief financial officer, are responsible for the integrity and fairness of the information presented in the consolidated financial statements.

In the course of its work, the committee met regularly with the external auditors and management, including the chief financial officer, who is also assigned responsibility for legislative compliance, and the president and chief executive officer. The committee also met with and received reports from an independent accounting/auditing firm, Deloitte & Touche LLP, ("Deloitte") which has been engaged to perform the internal audit function at Central.

Financial Reports

- Reviewed with management and the external auditors the appropriateness of Central's accounting and financial reporting, the impact of the adoption of new accounting pronouncements, the accounting treatment of significant risks and uncertainties, the key estimates and judgments of management that were material to Central's financial reporting and the disclosure of significant accounting policies.
- Reviewed and recommended to the Board for its approval, the Audited Consolidated Financial Statements of Central to ensure they were complete, fairly presented and, in accordance with established principles, consistently applied.

Internal Control

- Assessed the processes relating to the evaluation of Central's internal control environment, including approving the annual internal audit plan and reviewing the reports received from Deloitte in respect of internal control. This included evaluating internal audit processes and conducting regular reviews of the adequacy of resources and independence of Central's internal audit function.
- Reviewed and approved appropriate internal control and financial governance policies as well as Central's Audit Committee Mandate.
- Reviewed key regulatory requirements to understand their implications for Central.

- Reviewed reports relating to adherence to the Standards of Sound Business and Financial Practices prescribed by the Deposit Insurance Corporation of Ontario to ensure Central met or exceeded acceptable standards.
- Reviewed reports of the compliance officer in respect of legislative compliance matters to assess their implications for Central.
- Reviewed observations and recommendations of the external auditors and external regulators as well as management's response to assess their impact on Central.
- Met regularly with internal audit firm, Deloitte, with and without management present.

External Auditors

- Undertook, on behalf of Central's members, the selection and evaluation of the external auditors, including a comprehensive review of their performance, qualifications, independence, annual audit plan and fees (including fees for non-audit services) to ensure their performance against acceptable standards.
- Reviewed the results of the work of the external auditors including the communications to the committee required under Canadian generally accepted auditing standards.
- Reviewed and updated Central's policy in respect of the external auditors to reflect emerging practices. The committee continues to be satisfied that appropriate processes are in place to ensure the independence of the external auditors.
- Met regularly with the external auditors with and without management present.

Based on its findings, the Audit Committee issues reports and makes recommendations to the Board of Directors or senior management, as appropriate, with respect to matters outlined above, and follows up to ensure the recommendations are considered and implemented. The committee receives full co-operation and support from management to enable it to play an effective role in improving the quality of financial reporting to the members and enhancing the overall control structure at Central.

This year, consistent with its oversight responsibility for internal controls, the committee conducted a review of the non-bank asset-backed commercial paper ("ABCP") investments made by Central to determine whether the investments were consistent with approved policy and to assure there were no breakdowns in internal controls. The committee also asked Deloitte, acting as Central's internal auditors to conduct a similar, independent, review and to advise on what lessons could be learned, with hindsight, to make Central's risk management policies and processes more robust. Both of these reviews concluded that the ABCP investments were consistent with Board-approved policies and that proper procedures were followed in accordance with these policies. The Deloitte review made a number of recommendations to further strengthen Central's existing policies, standards, procedures and investment decision processes and these recommendations are being implemented by management.

The committee met nine times in 2007, and is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2007.

Respectfully submitted by the Audit Committee.

A handwritten signature in blue ink, appearing to read "Fred Gorbet", is written above a horizontal line that extends to the right.

Fred Gorbet
Chair
Audit Committee
February 8, 2008

AUDITORS' REPORT

To the Members of Credit Union Central of Ontario Limited

We have audited the consolidated balance sheet of Credit Union Central of Ontario Limited ("Central") as at December 31, 2007 and the consolidated statements of income and retained earnings, members' equity and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of 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 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.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P', serving as a decorative underline.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 6, 2008

**CREDIT UNION CENTRAL OF ONTARIO LIMITED
CONSOLIDATED BALANCE SHEET**

As at December 31 (in thousands) 2007 2006

ASSETS

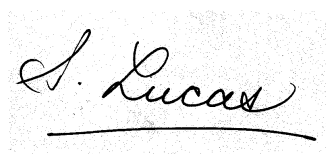
Cash resources	\$ 191,947	\$ 246,297
Securities (note 4)	1,297,674	1,190,775
Securities purchased under resale agreements (note 5)	-	136,445
Loans (note 6)	641,237	652,504
Derivative instruments (note 16)	55,576	8,473
Other assets (note 7)	12,516	6,815
	\$ 2,198,950	\$ 2,241,309

LIABILITIES AND RETAINED EARNINGS

Members' deposits (note 8)	\$ 1,967,343	\$ 1,636,932
Other liabilities	11,620	11,539
Derivative instruments (note 16)	55,236	8,857
Commercial paper	19,923	294,157
Obligations related to securities sold short	-	163,612
Membership shares (note 9)	140,154	98,494
	2,194,276	2,213,591
Accumulated other comprehensive income (loss)	(214)	-
Retained earnings	4,888	27,718
	\$ 2,198,950	\$ 2,241,309

See notes to consolidated financial statements.

Approved by the Board:



Sheena Lucas
Director



Fred Gorbet
Director

CREDIT UNION CENTRAL OF ONTARIO LIMITED
CONSOLIDATED STATEMENT OF INCOME

<i>For the year ended December 31 (in thousands)</i>	2007	2006
Interest income		
Securities	\$ 55,819	\$ 52,718
Loans (note 6(d))	41,613	28,918
Cash resources	7,785	6,199
	105,217	87,835
Interest expense		
Members' deposits (note 8(b))	72,124	55,115
External borrowings	12,789	16,649
	84,913	71,764
Net interest income	20,304	16,071
Provision for credit losses (note 6(c))	751	1,943
	19,553	14,128
Net gain (loss) on financial instruments	(8,486)	1,678
Financial margin	11,067	15,806
Operating revenue		
Membership dues	4,762	4,001
Financial services and other income	18,514	17,312
	23,276	21,313
Operating expenses		
Salaries and benefits	11,946	12,778
Administrative and other	14,647	13,393
Occupancy and amortization	3,794	3,854
	30,387	30,025
Income before the undernoted	3,956	7,094
Dividend (note 10)	4,152	3,822
Change in fair value of non-bank asset-backed commercial paper (note 4 (b))	24,784	-
Restructuring costs (note 3)	1,600	-
Income before income taxes	(26,580)	3,272
Provision for (recovery of) income taxes (note 12)	(4,558)	561
Net income (loss)	\$ (22,022)	\$ 2,711

See notes to consolidated financial statements.

CREDIT UNION CENTRAL OF ONTARIO LIMITED
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
AND COMPREHENSIVE INCOME

For the year ended December 31 (in thousands) **2007** 2006

RETAINED EARNINGS

Balance, beginning of year, as previously stated	\$ 27,718	\$ 25,007
Opening fair value adjustment on implementation of financial instruments standards, net of tax of \$185	(808)	-
Balance, beginning of year, as restated	26,910	25,007
Net income (loss) for the year	(22,022)	2,711
Balance, end of year	\$ 4,888	\$ 27,718

ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

Balance, beginning of year, as previously stated	\$ -	\$ -
Opening fair value adjustment on implementation of financial instruments standards, net of tax of \$140	(610)	-
Balance, beginning of year, as restated	(610)	-
Reclassification to net income of deferred loss on discontinued cash flow hedges, net of tax of \$90	396	-
Balance, end of year	\$ (214)	\$ -
Total members' equity end of year	\$ 4,674	\$ 27,718

COMPREHENSIVE INCOME

For the year ended December 31 (in thousands) **2007** 2006

Net income (loss) for the year	\$ (22,022)	\$ 2,711
Other comprehensive income, net of tax	-	-
Reclassification to net income of deferred loss on discontinued cash flow hedges	396	-
Comprehensive income for the year	\$ (21,626)	\$ 2,711

CREDIT UNION CENTRAL OF ONTARIO LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (in thousands)</i>	2007	2006
<i>Cash flows from operating activities:</i>		
Net income	\$ (22,022)	\$ 2,711
Adjustments for:		
Change in fair value of non-bank asset-backed commercial paper	24,784	-
Future income taxes	(3,420)	(74)
Net loss (gain) on financial instruments	8,486	(1,678)
Provision for credit losses, net	751	1,943
Amortization	724	795
Loss on sale of fixed assets	4	-
Change in derivative instruments		
- (increase) decrease in derivative asset	(47,103)	3,064
- increase (decrease) in derivative liability	46,379	(1,500)
Net changes in accrued interest receivable and payable	6,156	9,597
Other items, net	(3,374)	2,161
Cash flows from operating activities	11,365	17,019
<i>Cash flows from (used in) financing activities:</i>		
Net change in commercial paper	(274,234)	293,464
Net change in members' deposits	325,529	153,073
Membership shares issued	41,932	5,928
Membership shares redeemed	(272)	(383)
Net change in obligations related to securities sold under repurchase agreements	-	(78,698)
Net change in obligations related to securities sold short	(163,612)	(119,900)
Cash flows from (used in) financing activities	(70,657)	253,484
<i>Cash flows used in investing activities:</i>		
Sale and maturity of securities	44,290,211	33,395,161
Purchase of securities	(44,431,534)	(33,552,149)
Net change in loans	10,395	(153,590)
Net change in securities purchased under resale agreements	136,445	98,343
Acquisition of fixed assets	(574)	(925)
Proceeds on sale of fixed assets	2	2
Cash flows from (used in) investing activities	4,945	(213,158)
Effect of exchange rate changes on cash resources	(3)	178
Net increase (decrease) in cash resources	(54,350)	57,523
Cash resources, beginning of year	246,297	188,774
Cash resources, end of year	\$ 191,947	\$ 246,297
Cash resources are comprised of:		
Cash in bank and items in transit (net)	\$ 33,400	\$ 18,413
Deposits maturing or callable within 90 days	158,547	227,884
	\$ 191,947	\$ 246,297
Supplementary cash flow information:		
Interest paid during the year	\$ 80,032	\$ 62,298
Income taxes paid (received) during the year	\$ 343	\$ 1,347

See notes to consolidated financial statements.

CREDIT UNION CENTRAL OF ONTARIO LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

1. Significant accounting policies

The consolidated financial statements of Credit Union Central of Ontario Limited (“Central”) have been prepared in accordance with generally accepted accounting principles (“GAAP”), including interpretations of GAAP by the Superintendent of Financial Institutions Canada. The significant accounting policies that were followed are summarized below:

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

(a) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of Central and its wholly-owned subsidiary, Landmark Credit Limited. All inter-company transactions and balances have been eliminated in preparing the consolidated financial statements.

(b) Cash resources

Cash resources include deposits with regulated financial institutions with an original term less than 90 days and cheques and other items in transit representing uncleared settlements with other financial institutions. Both items are recorded at cost. Income on interest bearing deposits is recorded on an accrual basis and is included in *Interest income - Cash resources* in the Consolidated Statement of Income.

(c) Securities

Securities are comprised of trading securities, and co-operative investments. Commencing January 1, 2007, Central accounts for its trading securities in accordance with CICA Handbook (“HB”) 3855. Refer to note 2(a) for more information.

Prior to January 1, 2007, investment account securities are securities where the original intention is to hold the securities to maturity or until market conditions render alternative investments more attractive. Debt securities are carried at amortized cost whereby purchase discounts and premiums are amortized to income over the period to maturity. Investments in shares of co-operatives are carried at cost. Dividend and interest income on all securities are included in *Interest Income - Securities* in the Consolidated Statement of Income. Trading securities are purchased for resale over a short period of time and are carried at fair value. The full amount of gains or losses on disposal and adjustments to fair value of these securities is included in *Net gain (loss) on financial instruments* in the Consolidated Statement of Income.

Gains and losses on the sale of fixed-term securities are accounted for using the completed transaction method on the trade date. If the value of investment account securities or co-operative shares has an impairment that is other than temporary, the carrying value is appropriately reduced to fair value. Any write downs or gains and losses on disposal of

CREDIT UNION CENTRAL OF ONTARIO LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

securities are recorded in the year they occur and are included in *Net gain (loss) on financial instruments* in the Consolidated Statement of Income.

(d) Loans

Loans consist of members' loans, residential mortgage loans and commercial syndicated and other loans. Commencing January 1, 2007, Central accounts for loans in accordance with CICA Handbook 3855. Refer to Note 2(a) for more information. Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis except on loans classified as impaired. A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines the loan is fully secured or in the process of collection, and the collection efforts are reasonably expected either to result in repayment of the loan or restoration to a current status within 180 days from the date the payment has become contractually in arrears. All loans are classified as impaired when interest or principal is past due 180 days, except for loans guaranteed or insured by the Canadian government, the provinces, or a Canadian government agency, which are classified as impaired when interest or principal is contractually 365 days in arrears.

When a loan is classified as impaired, recognition of interest, in accordance with the terms of the original loan agreement, ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

(e) Allowance for credit losses

Central maintains an allowance for credit losses which, in management's opinion, is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items, including loans, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

The allowance for credit losses consists of specific provisions and general provisions, which are both reviewed on a regular basis. The balance in the allowance for the credit losses account is deducted from the related asset category, except for provisions against off-balance sheet items, which are included in *Other liabilities* on the Consolidated Balance Sheet.

Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss. Loans are reviewed at least quarterly to assess whether a loan should be classified as impaired and an allowance or write-off recorded.

In the case of loans, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan,

CREDIT UNION CENTRAL OF ONTARIO LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

net of any expected realization costs and any amounts legally required to be paid to the borrower, or the observable market price for the loan, is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on expected future cash flows is included in the *Provision for credit losses* in the Consolidated Statement of Income.

General provisions are established to absorb probable credit losses on the aggregate exposures in each of Central's business lines for which losses are not yet specifically identified on an item-by-item basis. The general allowance is reviewed regularly and is based upon statistical analysis of past performance, the level of allowance already in place, and management's judgment.

The amount of the *Provision for credit losses* that is charged to the Consolidated Statement of Income is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that Central management considers adequate to absorb all credit-related losses in its portfolio of on- and off-balance sheet items after charging amounts written off during the year, net of recoveries, to the allowance for credit losses account.

(f) Loan securitizations

When Central sells receivables by securitizing residential mortgage loans, it retains one or more subordinated tranches and, in some cases, a cash reserve account -- all of which represent a retained interest in the securitized receivables. Gain or loss on the sale of the receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer, and is recognized at the time of securitization.

Central classifies its retained interests in securitization as trading securities. These retained interests are recorded at their fair value at the time of sale.

(g) Fixed assets

Fixed assets are stated at cost, less accumulated amortization. Office furniture, computer equipment and software are amortized over their estimated useful life of one to 10 years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives and the underlying lease terms. Gains and losses on disposal are recorded in *Administrative and other* expenses in the Consolidated Statement of Income.

(h) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the Consolidated Balance Sheet date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year except for amortization, which is based on the historical Canadian dollar cost of the related assets.

Realized and unrealized gains and losses on foreign currency financial instruments are recorded in *Financial services and other income* in the Consolidated Statement of Income.

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(i) Derivative instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices.

In the ordinary course of business, Central enters into various derivative contracts, including interest rate and foreign exchange forwards, futures, swaps, and options. Derivative contracts are either exchange-traded contracts (including futures and options) or negotiated over-the-counter contracts (including forwards, swaps and options). Central enters into such contracts for trading purposes, as well as to manage its exposure to currency and interest rate fluctuations as part of Central's asset/liability management program. Trading activities are undertaken to profit from pricing anomalies and Central offsets the position risk by entering into contracts in other related markets.

All derivative instruments are marked-to-market and the resulting net gains or losses are recognized as *Net gain (loss) on financial instruments* in the Consolidated Statement of Income in the current year. Unrealized gains on contracts in a favourable position are included in *Other assets*. Accrued interest payable and unrealized losses on those contracts in an unfavourable position are recorded in *Other liabilities* on the Consolidated Balance Sheet. Fair values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors.

(j) Income taxes

Central follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

Future tax assets and liabilities are recorded either in *Other assets* or *Other liabilities*, as applicable, in the Consolidated Balance Sheet.

(k) Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

Central enters into short-term agreements whereby it purchases and simultaneously commits to resell securities, or sells and simultaneously commits to repurchase securities, at a specified price on a specified date. Prior to January 1, 2007, these transactions were recorded at cost. Interest income (resale agreements) and interest expenses (repurchase agreements) were recorded on an accrual basis.

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(l) Obligations related to securities sold short

Central's obligation to deliver securities sold that were not owned at the time of sale is recorded at fair value. Adjustments to fair value are recorded as *Net gain (loss) on financial instruments* in the Consolidated Statement of Income.

(m) Employee benefit plans

Central accrues its obligations under employee benefit plans (including pension plans and post-retirement plans other than pensions) and the related costs, net of plan assets. Central has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs;
- for the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment;
- the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is currently 17 years. The average remaining service period of the active employees covered by the other post-retirement plans is 19 years; and
- when the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(n) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. Changes in Accounting Policies

(a) Current year changes

Financial Instruments, Hedges and Comprehensive Income

On January 1, 2007, Central adopted three new CICA accounting standards: HB 3855, *Financial Instruments – Recognition and Measurement*, HB 3865, *Hedges*, and HB 1530, *Comprehensive Income*. The requirements of the new standards, related accounting policies adopted by Central and the resulting financial statement impact are discussed below.

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Financial Instruments – Recognition and Measurement

The standard requires that all financial assets and liabilities be carried at fair value, except loans and receivables, securities designated as held to maturity (“HTM”) and non-trading financial liabilities which are carried at amortized cost. The investment securities classification is no longer applicable under the new rules. In addition, the standard requires that all derivatives be measured at fair value. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models.

Classification of Financial Instruments

Trading financial assets are securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations continue to be reported in income as *Net gain (loss) on financial instruments*. Dividends and interest earned and interest incurred are included in interest income and expense, respectively.

Held to maturity (“HTM”) financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost. Central has not designated any financial assets as HTM.

Available for sale (“AFS”) financial assets are those non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM investments, or trading. AFS securities are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income (“AOCI”) until sale or other-than-temporary impairment when the cumulative gain or loss is transferred to the Consolidated Statement of Income. Securities included in this category comprise debt and equity co-operative investments that do not have quoted market values in an active market. Co-operative investments that do not have quoted market values in an active market are carried at cost. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in *Net gain (loss) on financial instruments*. Dividends and interest income from these securities are included in interest income.

Settlement date accounting continues to be used for all securities, except changes in fair value between the trade date and settlement date are reflected in income for trading while changes in fair value between trade date and settlement date are reflected in other comprehensive income (“OCI”) for AFS securities.

Loans and receivables continue to be accounted for at amortized cost.

Financial liabilities are recorded at amortized cost and include all liabilities, other than derivatives, obligations related to securities sold short and liabilities designated as held for trading.

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Derivatives 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. Derivatives may be embedded in other financial instruments. Under the new standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a free standing instrument; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are classified as part of the host instrument and measured at fair value with changes therein recognized in the Consolidated Statement of Income. Central applied this accounting treatment to all host contracts at January 1, 2007.

Interest income and expense are recognized in the Consolidated Statement of Income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes transaction costs and discounts or premiums that are an integral part of the effective interest rate.

Interest income and expense presented in the Consolidated Statement of Income include:

- interest on financial assets and liabilities at amortized cost on an effective interest basis;
- the release from AOCI of the gain or loss relating to the effective portion of qualifying hedging derivatives designated in a cash flow hedge as the hedged item is recorded in interest income (expense); and
- fair value changes in qualifying derivatives (including hedge ineffectiveness) and fair value changes on the related hedged items arising from the hedged risk when interest rate risk is the hedged risk.

Hedges

There are three main types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges. Previously, derivatives that met hedge accounting criteria were accounted for on an accrual basis.

In a fair value hedge, the change in fair value of the hedging derivative is offset in the Consolidated Statement of Income by the change in fair value of the hedged item relating to the hedged risk. Central utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate. The main financial instruments designated in fair value hedging relationships include bonds, loans, members' deposits and external borrowings. If the derivative expires or is sold, terminated or exercised, no longer meets the criteria for fair value hedged accounting, or the designation is revoked, hedge accounting is discontinued.

In a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in OCI. The amount recognized in OCI is accrued and included in the Consolidated Statement of

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Income in the same period as the hedged cash flows affect income. Central utilizes cash flow hedges primarily to convert floating rate deposit liabilities to fixed rate.

In a net investment hedge, the change in fair value of the hedging instrument, to the extent it is effective, is recorded directly in OCI. Central does not maintain any self-sustaining foreign operations or net investment hedges.

Any hedge ineffectiveness is measured and recorded in current period net interest income in the Consolidated Statement of Income. Previously, hedge ineffectiveness was generally recognized in the Consolidated Statement of Income over the life of the hedging relationship.

When either a fair value or cash flow hedge is continued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge or when the hedged item is derecognized. There were no significant changes to Central's risk management policies and hedging activities as a result of the new accounting standards.

Comprehensive Income

A new Statement of Comprehensive Income now forms part of Central's consolidated financial statements and displays current period net income and other comprehensive income. Accumulated other comprehensive income (loss) is a separate component of members' equity. The Consolidated Statement of Comprehensive Income reflects changes in accumulated other comprehensive income, comprised of changes in unrealized gains and losses on available for sale assets as well as changes in the fair value of derivatives designated as cash flow hedges, to the extent they are effective. The impact of any related hedges, previously reported separately in the Consolidated Statement of Changes in Shareholders' Equity, now form part of accumulated other comprehensive income (loss).

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As required, these standards have been applied as an adjustment to opening retained earnings and accumulated other comprehensive income. The impact of adopting these standards as at January 1, 2007, was as follows:

<i>(in thousands)</i>	As at December 31, 2006	Estimated fair value adjustments	As at January 1, 2007
ASSETS			
Cash resources	\$ 246,297	\$ -	\$ 246,297
Securities	1,190,775	(231)	1,190,544
Securities purchased under resale agreements	136,445	(51)	136,394
Loans	652,504		652,504
Derivative Instruments	8,473	35,639	44,112
Other assets	6,815	324	7,139
	<u>\$ 2,241,309</u>	<u>\$ 35,681</u>	<u>\$ 2,276,990</u>
LIABILITIES AND MEMBERS' EQUITY			
Members' deposits	\$ 1,636,932	\$ (1,064)	\$ 1,635,868
Other liabilities	11,539		11,539
Derivative Instruments	8,857	37,601	46,458
Commercial paper	294,157	(38)	294,119
Obligations related to securities sold under repurchase agreements	-	-	-
Obligations related to securities sold short	163,612	600	164,212
Membership shares	98,494	-	98,494
	<u>2,213,591</u>	<u>37,099</u>	<u>2,250,690</u>
Retained earnings	27,718	(808)	26,910
Accumulated other comprehensive income	-	(610)	(610)
	<u>\$ 2,241,309</u>	<u>\$ 35,681</u>	<u>\$ 2,276,990</u>

(b) Future Accounting Changes

Financial Instruments – Presentation and Disclosure

HB 3862, *Financial Instruments – Disclosure*, and HB 3863, *Financial Instruments – Presentation*, both issued in December 2006, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. HB 3863 establishes standards for presentation of financial instruments, from the perspective of the issuer, between liabilities and equity. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and, therefore, Central will implement them in the first quarter of 2008.

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Capital Disclosures

HB 1535, *Capital Disclosures*, issued in December 2006, establishes guidelines for the disclosure of information regarding Central's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a financial institution regards as capital is required. These recommendations are effective for fiscal years beginning on or after October 1, 2007 and therefore, Central will implement them in the first quarter of 2008.

3. Proposed business combination and restructuring costs

In June 2007, the membership of both Central and Credit Union Central of British Columbia approved motions to combine their respective business services and create a new national business organization to serve credit unions across the country. The new organization will be named Central 1 Credit Union and a joint restructuring committee was established to guide the merger plans and oversee integration teams. Due to valuation uncertainties in the non-bank asset-backed commercial paper market, on December 14, 2007, the parties agreed to extend the closing date and address the uncertainties associated with the non-bank asset-backed commercial paper by providing for specific closing options. The closing date of the merger has been extended and is expected to close by July 1, 2008, subject to certain approvals.

As a result, Central has recorded \$1,600,000 in restructuring costs associated with special membership meetings, project management, legal and other consulting services relating to the combination.

4. Securities

(a) Carrying values

Below is a comparison of the carrying values, unrealized gains and unrealized losses on securities. As previously mentioned in notes 1(c) and 2(a), in 2007, Central designated securities as held-for-trading, except co-operative investments which are designated as available-for-sale. Accordingly, the carrying values for 2007 include any unrealized gains or losses as follows:

2007 (in thousands)	2007 Carrying value	2006 Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities:					
Government	\$ 68,332	\$ 33,892	\$ 129	\$ (9)	\$ 34,012
Chartered bank	914,770	623,137	434	(738)	622,833
Other debt	183,148	519,976	635	(682)	519,929
Long-term non-bank asset-backed commercial paper (note 4b)	117,116	-	-	-	-
	\$ 1,283,366	\$ 1,177,005	\$ 1,198	\$ (1,429)	\$ 1,176,774
Co-operative investments (note 18c)	14,308	13,770			
	\$ 1,297,674	\$ 1,190,775			

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(b) Non-bank asset-backed commercial paper

As at December 31, 2007, Central held Canadian non-bank asset-backed commercial paper ("ABCP") with an original cost of \$141,900,000 issued by a number of trusts ("the Affected Trusts") impacted by recent liquidity issues in the ABCP market. When acquired by Central, these investments were rated R1 (High) by Dominion Bond Rating Service ("DBRS"), the highest credit rating issued for commercial paper, and backed by R1 (High) rated assets and liquidity funding agreements. On August 13, 2007, a number of ABCP issuers were unable to roll over maturing ABCP and their requests for liquidity funding were not granted by liquidity providers who disputed the satisfaction of all of the conditions precedent for the provision of liquidity. Central's non-bank ABCP investments which matured after August 13, 2007, did not settle on maturity and as a result, recognition of interest income has ceased and Central has separately classified its non-bank ABCP as long-term assets within Securities previously classified as Other Debt.

Other Debt as at December 31, 2007, also includes \$60,000,000 in other non-bank asset-backed mid-term notes including \$20,000,000 in mid-term notes issued by one of the Affected Trusts and \$55,101,000 in bank sponsored asset backed mid-term notes. These securities continue to perform and are not subject to the Standstill Agreement and restructuring plan described in this note.

Other asset-backed securities included in Other Debt

<i>(in thousands)</i>	2007	2006
Non-bank asset backed securities	\$ 60,000	\$ 180,665
Bank sponsored asset backed securities	55,101	202,133
	\$ 115,101	\$ 382,798

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement (the Montreal Accord) to convert the ABCP into long-term floating rate notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, a pan-Canadian restructuring committee consisting of major investors was formed. The committee was created to propose a solution to the liquidity problem affecting the ABCP market and has retained legal and financial advisors to oversee the proposed restructuring process.

The ABCP in which Central has invested has not traded in an active market since mid-August 2007. There are currently no market quotations available and the ABCP continues to be rated R1 (High, Under Review with Developing Implications) by DBRS.

Through to February 22, 2008, a Standstill Agreement is in place that commits investors not to take any action that would precipitate an event of default and Central has agreed to indemnify (on a several basis) indenture trustees for the Affected Trusts. The indemnity is limited to Central's proportionate share of the indemnity amount estimated to be up to \$4,000,000. Central's proportionate share of the indemnity amount is based on the face value of its investments in the Affected Trusts as a percentage of the face value of all investments in the Affected Trusts. It is expected that the restructuring of the ABCP will occur by March 31, 2008,

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if approval by investors is obtained to do so. This approval is anticipated to be requested on a trust by trust basis during March 2008.

On December 23, 2007, the pan-Canadian restructuring committee provided certain details about the expected restructuring. Based on this and other public information it is estimated that, of the \$141,900,000 of ABCP in which Central has invested:

- \$21,236,000 is represented by traditional securitized assets and Central will, on restructuring, receive replacement long-term floating rate notes that are expected to receive a AAA credit rating;
- \$96,784,000 is represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets and Central will, on restructuring, receive replacement senior and subordinated long-term floating rate notes. It is estimated that 75% of these replacement notes will be senior notes and 25% will be subordinated notes. The senior notes are expected to obtain a AAA rating while the subordinated notes are likely to be unrated; and
- \$23,880,000 is represented by assets that have an exposure to US sub-prime mortgages. On restructuring, Central is likely to receive long-term floating rate notes that may be rated, although at this time the pan-Canadian restructuring committee has provided no indication of the likely rating these notes may receive.

The valuation technique used by Central to estimate the fair value of its investment in ABCP at December 31, 2007, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the public statements made by the pan-Canadian restructuring committee that it expects the ABCP will be converted into various long-term floating rate notes, as discussed above, with maturities matching the maturities of the underlying assets and bearing market interest rates commensurate with the nature of the underlying assets and their associated cash flows and the credit rating and risk associated with the long-term floating rate notes. The interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses modelled are:

- Interest rates on long-term notes of 4.3% to 5.3% (weighted average 4.5%)
- Discount rates on future cash flows of 5.7% to 6.7% (weighted average 5.9%)
- Maturity of long-term floating rate notes over the next 6.5 years (weighted average 3.6 years)
- Credit losses
 - nil to 50% on a going concern basis (weighted average 8.4%)
 - 5% to 50% on a liquidation basis (weighted average 25.5%)

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Interest rates and credit losses vary by each of the different replacement long-term floating rate notes to be issued as each has different credit ratings and risks. Discount rates vary dependent upon the credit rating and risk of the replacement long-term floating rate notes. Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets. In addition, assumptions have also been made as to the amount of restructuring costs and servicing costs that Central will bear.

One of the possible cash flow projections modelled is a liquidation scenario whereby, if the restructuring is not successfully completed, recovery of Central's investment would be through the liquidation of the underlying assets of the ABCP trusts.

Based on the above publically available information and management assumptions, the probability weighted cash flows projections resulted in an estimated fair value of Central's investment in non-bank ABCP of \$117,116,000 at December 31, 2007. The reduction in the fair value of \$24,784,000 (\$20,169,000 after tax) or 17.5% of the original cost of the ABCP was recorded as a charge to income in 2007.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of Central's investment in ABCP which could impact Central's future earnings.

(c) Pledged securities

Central has pledged securities in the amount of \$161,750,000 (2006 - \$53,000,000) as security for clearing activity, investment transactions, and external borrowings. Central has no borrowed securities in 2007 (2006 - \$28,077,000 and pledged securities with a collateral value of 111% of the borrowed securities).

5. Securities purchased under resale agreements

Central acquired certain securities and simultaneously agreed to resell them at a mutually agreed rate of return at a future date. The carrying value of these securities as at December 31, 2007, was nil (2006 - \$136,445,000), with a collateral value of 100%.

6. Loans

(a) Carrying Values

<i>(in thousands)</i>	2007	2006
Members' loans	\$ 486,917	\$ 496,931
Residential mortgage loans	6,098	7,427
Commercial, syndicated and other loans	148,647	150,445
Accrued interest receivable	1,291	1,412
	642,953	656,215
Allowance for credit losses	(1,716)	(3,711)
	\$ 641,237	\$ 652,504

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Members' loans are comprised substantially of lines of credit and term loans that bear interest at fixed or floating rates and are secured by general security agreements over the respective credit union's assets. Residential mortgage loans are issued for a maximum term of twenty-five years and bear interest primarily at fixed rates with a maximum repricing period of five years. Commercial, syndicated and other loans are issued on both a fixed and floating interest rate basis and are secured primarily by real property, inventory or accounts receivable of the borrowers.

(b) Impaired loans

<i>(in thousands)</i>	Gross Impaired	Specific Provision	General Provision	2007 Net Amount	2006 Net Amount
Members' loans	\$ -	\$ -	\$ -	\$ -	\$ -
Residential mortgage loans	-	-	(5)	(5)	(5)
Commercial, syndicated and other loans	3,950	(750)	(961)	2,239	2,921
	\$ 3,950	\$ (750)	\$ (966)	\$ 2,234	\$ 2,916

The net investment in residential mortgages and commercial, syndicated and other loans for which a general provision for credit losses has been established amounts to \$186,371,000 (2006 - \$151,245,000).

(c) Allowance for credit losses

The activity in the allowance for credit losses and resulting year-end balances are detailed below:

<i>(in thousands)</i>	Specific Provision	General Provision	2007 Total	2006 Total
Balance, beginning of year	\$ 2,760	\$ 951	\$ 3,711	\$ 2,718
Collection of loans previously written-off	32	-	32	-
Loans written-off as uncollectible	(2,778)	-	(2,778)	(950)
Provision for credit losses	736	15	751	1,943
Balance, end of year	\$ 750	\$ 966	\$ 1,716	\$ 3,711

The allowance for credit losses has been established in accordance with generally accepted accounting principles and also complies with the applicable regulatory standards.

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(d) Interest income – loans

Interest income from loans is comprised of:

<i>(in thousands)</i>	2007	2006
Members' loans	\$ 30,758	\$ 18,911
Residential mortgage loans	323	343
Commercial, syndicated and other loans	10,532	9,664
	\$ 41,613	\$ 28,918

7. Other assets

<i>(in thousands)</i>	2007	2006
Accounts receivable	\$ 9,600	\$ 3,920
Prepaid expenses	1,012	835
Fixed assets, net of accumulated amortization of \$ 11,905 (2006 - \$11,661)	1,904	2,060
	\$ 12,516	\$ 6,815

8. Members' deposits

(a) Deposits

<i>(in thousands)</i>	2007	2006
Current accounts	\$ 164,834	\$ 164,870
Demand deposits	8,166	6,566
Term deposits	98,429	103,397
Bond deposits and discount deposits	406,363	528,936
Non-callable deposits	180	200
Liquidity reserve deposits	1,289,371	832,963
	\$ 1,967,343	\$ 1,636,932

Liquidity reserve deposits are received from members in accordance with a Central by-law that requires each member to maintain on deposit a percentage of the credit union's own total assets. Effective on June 30, 2007, the liquidity reserve deposit requirement was increased to 7% from 5%. Amounts on deposit are callable within 90 days and amounts are adjusted quarterly through an update procedure.

Prior to the by-law changes in 2007, Secondary liquidity reserve deposits of 2% of the credit union's own total assets were required to be invested in qualifying liquidity deposit instruments with Central and liquidity deposits were updated annually.

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(b) Interest expense

Interest expense is comprised of:

<i>(in thousands)</i>	2007	2006
Current accounts	\$ 2,639	\$ 2,265
Demand deposits	258	197
Term deposits	4,920	4,711
Bond deposits and discount deposits	20,304	19,779
Non-callable deposits	8	4
Liquidity reserve deposits	43,995	28,159
	\$ 72,124	\$ 55,115

9. Membership shares

As a condition of membership, Central's members are required to maintain an investment in share capital, which is adjusted annually. Effective January 1, 2007, Central's membership by-laws require that each member credit union maintain share capital of 0.60% (2006 – 0.60%) of total assets as of December 31 of the immediately preceding year and authorizes the Board of Directors to call for up to 0.40% of additional share capital. On November 15, 2007, the Board of Directors required that each member credit union maintain share capital of an additional 0.20% of its total assets. Subject to approval by the Board of Directors and compliance with statutory provisions, share capital is redeemable at the option of the member and is classified as a liability on the Consolidated Balance Sheet. Notwithstanding the financial statement classification of Central's share capital, membership shares qualify as regulatory capital.

10. Dividend

On February 9, 2007, the Board of Directors declared a dividend in respect of 2006 operations of \$4,152,000 calculated at a rate of 4.25% on the average share capital outstanding. The dividend was paid on February 19, 2007, to members of record on December 31, 2006, and is recorded in the Consolidated Statement of Income.

Central records dividends declared as an expense on the Consolidated Statement of Income as a result of classifying membership shares as a liability.

11. Capital requirements

Regulations to the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) prescribe the ratio of regulatory capital to be at least 5% of total assets. The *Cooperative Credit Associations Act* (Canada) requires the maximum ratio of debt-to-capital to be 20-to-1 after adjustments for investments in subsidiaries and certain affiliates.

Central is in compliance with these capital requirements as at December 31, 2007. The regulatory capital ratio amounted to 6.59% (2006 – 5.63%) of total assets and the ratio of debt-to-capital was 14.6-to-1 (2006 – 17.3-to-1).

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12. Income taxes

The *Provision for income taxes* recorded in the Consolidated Statement of Income is composed of the following:

<i>(in thousands)</i>	2007	2006
Current income taxes:		
Federal	\$ (971)	\$ 388
Provincial	(397)	247
	(1,368)	635
Future income taxes:		
Federal	(2,158)	(52)
Provincial	(1,032)	(22)
	(3,190)	(74)
Total	\$ (4,558)	\$ 561

The components of future income tax balances are as follows:

<i>(in thousands)</i>	2007	2006
Future income tax assets:		
Deferred items	\$ 3,356	\$ -
Premises and equipment	141	163
Allowance for credit losses	162	174
Corporate minimum tax	88	88
Other	153	55
Total	\$ 3,900	\$ 480

The *Provision for income taxes* that is reported in the Consolidated Statement of Income varies from that obtained by applying statutory income tax rates to the income before provision for income taxes for the following reasons:

<i>(in thousands)</i>	2007		2006	
Combined federal and provincial income taxes and statutory tax rate	\$ (4,949)	18.6%	\$ 609	18.6%
Increase (decrease) due to:				
Tax exempt income from securities	(29)	0.1	(30)	(0.9)
Non-deductible expenses	15	(0.1)	16	0.5
Change in future tax rates	400	(1.5)	-	-
Other, net	5	-	(34)	(1.1)
Provision for income tax and effective tax rate	\$ (4,558)	17.1%	\$ 561	17.1%

The combined federal and provincial statutory tax rate of 18.6% includes federal abatement, corporate surtaxes, small business and other additional deductions eligible to credit unions.

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13. Credit facilities

Central has an operating line of credit with Credit Union Central of Canada (“CUCC”) of \$75,000,000 that has no outstanding balance at December 31, 2007 (2006 - nil) at wholesale prime rates that is secured by an assignment of Central’s book debts, Central’s deposits in CUCC and Central’s investment in the shares of CUCC (\$5,439,000) at December 31, 2007. In 2007, Central opened a USD account at Credit Union Central of British Columbia to settle US wires which has a \$3,000,000 authorized overdraft limit.

In addition, Central has operating lines of credit with other financial institutions totaling \$13,500,000 at prime rates plus 1% with an outstanding balance of nil in 2007 (2006 - nil). These lines are established for cash parcel services, money orders, wire transfers, guarantees and letters of credit on behalf of member credit unions.

14. Related party transactions

(a) Stabilization Fund Corporation

Central acts as administrator of the Stabilization Fund Corporation (the “Corporation”). The one outstanding share of the Corporation, issued for nominal consideration, is held in trust by Central on behalf of its members. The Corporation provides limited loss prevention and rehabilitation activities for member credit unions through a long-term endowment of \$3,000,000 and administers the Credit Union Deductible Fund to help manage the costs of bonding, errors and omissions, and directors’ liability insurance to the credit union system.

In 2007, the Corporation was charged \$12,000 (2006 - \$12,000) for administrative services provided by Central. In addition, the Corporation has agreed to reimburse Central for costs of \$100,000 (2006 - \$120,000) to support loss prevention programs and for ongoing support of the operations manuals program for the members of Central. These amounts have been reflected at the exchange amount in the consolidated financial statements.

(b) Other

Remuneration to directors and committee members was \$144,000 (2006 - \$172,000) and other expenses for the Board and committees were \$296,000 for the year (2006 - \$403,000).

15. Commitments, contingent liabilities and guarantees

(a) Loans

As at December 31, 2007, Central had loaned \$486,917,000 to members against approved credit facilities of \$1,287,669,000 and had outstanding letters of credit of \$9,284,000 against an authorized limit of \$23,540,000. In addition, Central had advanced \$148,647,000 against approved commercial loan commitments and credit lines of \$181,052,000 and had issued \$1,431,000 in commercial letters of credit against an authorized limit of \$1,936,000.

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(b) Lease commitments

Minimum annual lease payments required under operating leases for premises and equipment were as follows:

(in thousands)

2008	\$ 758
2009	779
2010	779
2011	765
2012	722
Thereafter	1,485
	\$ 5,288

(c) Mortgage securitizations

Central's mortgage securitization programs expand the lending capacity of participating credit unions whereby eligible mortgages are financed by external investors through independent securitization vehicles. The credit union continues to service the sold mortgages and as an intermediary, Central is responsible for fund collection, reporting and other administration including certifying the credit union's lending practices to permit participation in the programs.

Central is committed to act as a stand-by servicer. In certain limited circumstances relating to credit union options to repurchase maturing mortgages, Central could become obligated to repurchase specific maturing mortgages. In addition, Central provides credit enhancement to the independent securitization vehicles for the purpose of maintaining an investment grade credit for investment notes issued by the trusts. Central also provides backstop liquidity facilities to one of the trust's commercial paper programs in the event of market disruptions. Credit enhancement provided by means of a guarantee amount of \$79,998,000 as at December 31, 2007, and mortgages with a total outstanding balance of \$677,366,000 are being administered in the securitization programs (\$171,152,000 of this amount is administered under the commercial securitization program). It is management's opinion that Central's future obligation under this securitization program will not have a material effect, if any, on Central's cash flows. Central has not recorded any related liability as at December 31, 2007, with respect to these facilities.

In 2004, Central expanded its residential mortgage securitization programs to provide credit unions with the opportunity to sell smaller pools of mortgages. Central aggregates these pools of mortgages into larger, more diversified pools, and subsequently sells the combined pool of mortgages to a special purpose trust on the same day. This arrangement is referred to as Central's Mortgage Purchase and Securitization Program. The credit union retains servicing responsibility for the mortgages with Central acting as the back up servicing agent. Central receives no explicit servicing fee for this responsibility and retains a beneficial interest in the mortgages by purchasing subordinated notes in the trust.

The rights to future cash flows arising after the investors in the trust have received the return for which they contracted, and credit enhancement to the trust using cash collateral accounts, flow contractually from the trust to Central and back to the originating credit union on the same day.

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The investors and the trust have no recourse to Central's other assets for failure of debtors to pay when due other than Central's investment in the trust's subordinated notes. As a result of these arrangements, Central realizes no gain or loss on the sale of mortgages under these securitizations.

The following tables summarize quantitative information about Central's Mortgage Purchase and Securitization Program:

	2007	2006
<i>(in thousands)</i>		
Type of loan		
Residential mortgage loans purchased		
Total principal amount of loans	\$ 73,787	\$ 83,327
Principal amount of loans 60 days or more past due	\$ -	\$ -
Average balances	\$ 191,195	\$145,291
Net credit losses	\$ -	\$ -

The following table summarizes cash flows received from and paid to the trust during the year:

	2007	2006
<i>(in thousands)</i>		
Proceeds from new securitizations	\$ 73,787	\$ 83,328
Other securitization revenue	91	53
Cash flows received on retained interests, net of payments made to credit unions	-	-
Purchases of delinquent or foreclosed assets	-	-

(d) Indemnification agreements

In the ordinary course of business, Central provides indemnification commitments to counterparties in various service and administrative agreements. Under these indemnification agreements, Central may be required to compensate counterparties for costs or damages incurred as a consequence of the relationship. Central also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, a director or officer at Central's request.

The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Due to the nature of these agreements it is expected that any future payments would be nominal. Historically, Central has not made any significant payments under such indemnifications and no amount has been accrued in the consolidated financial statements with respect to these commitments. Further, for those service and indemnification agreements entered into with third party services on behalf of member credit unions, Central has entered into similar indemnification agreements with these credit unions, offsetting any potential liability.

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16. Derivative instruments

In the normal course of business, interest rate swap contracts, options and forward rate agreements are outstanding and are not reflected in the consolidated financial statements. Central enters into these derivative instruments as a service to meet the needs of its members and to manage exposures to interest rate fluctuations. Central also manages yield enhancement positions to profit from pricing anomalies and offsets the position risk by entering into contracts in other related markets.

Interest rate swaps are contracts between two parties in which interest obligations are exchanged on a specified notional principal amount for a predetermined period based on agreed upon fixed and floating rates. *Options* are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option) at or by a set date a specific amount of a financial instrument at a predetermined price. In consideration for the assumption of risk, the seller receives a premium from the purchaser. *Forward rate agreements* call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate based on a notional principal amount.

The table below provides an analysis of Central's derivative portfolio and related credit exposure:

	2007		2006	
	Notional amount	Current replacement cost	Notional amount	Current replacement cost
<i>(in thousands)</i>				
Asset Liability Management (ALM)				
Interest rate contracts:				
Interest rate swaps	\$ -	\$ -	\$ 1,029,181	\$ 715
Equity contracts:				
Options written	109,736	-	129,007	-
Options purchased	109,736	28,264	129,007	34,923
Total ALM	\$ 219,472	\$ 28,264	\$ 1,287,195	\$ 35,638
Yield enhancement				
Interest rate contracts:				
Interest rate swaps	\$ 6,038,018	\$ 25,565	\$ 3,749,346	\$ 7,871
Forward rate agreements	-	-	900,000	-
Options written	-	-	250,000	-
Options purchased	50,000	-	50,000	5
Exchange traded futures	-	-	857,000	37
Foreign exchange contracts:				
Spot and forward contracts	211,308	1,747	44,828	560
Total yield enhancement	\$ 6,299,326	\$ 27,312	\$ 5,851,174	\$ 8,473
Total ALM and yield enhancement	\$ 6,518,798	\$ 55,576	\$ 7,138,369	\$ 44,111

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

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Current credit exposure is limited to the amount of losses that Central would suffer if every counterparty to which Central is exposed were to default at once, which is represented by the *Current replacement cost* of all outstanding contracts in a gain position. These amounts, detailed above, do not consider the value on any collateral. Credit exposure is managed as part of the overall borrowing limits granted to customers. Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. Central attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy and by requiring counterparties to enter into master netting agreements. The credit risk associated with contracts in a favourable position is eliminated by these master netting agreements, only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. Central's overall exposure to credit risk on derivative instruments, subject to a master netting agreement, can change substantially within a short period since it is affected by each transaction subject to the agreement.

The following table summarizes the fair value of Central's derivative portfolio at December 31, 2007, and segregates derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position:

	2007		2006	
	Total favourable position	Total unfavourable position	Total favourable position	Total unfavourable position
<i>(in thousands)</i>				
ALM				
Interest rate contracts:				
Interest rate swaps	\$ -	\$ -	\$ 715	\$ (2,678)
Equity contracts:				
Options written	-	(28,264)	-	(34,923)
Options purchased	28,264	-	34,923	-
Total ALM	\$ 28,264	\$ (28,264)	\$ 35,638	\$ (37,601)
Yield enhancement				
Interest rate contracts:				
Interest rate swaps	\$ 25,565	\$ (25,542)	\$ 7,871	\$ (8,275)
Forward rate agreements	-	-	-	(21)
Options written	-	-	-	(20)
Options purchased	-	-	5	-
Exchange traded futures	-	-	37	-
Foreign exchange contracts:				
Spot and forward contracts	1,747	(1,430)	560	(541)
Total yield enhancement	\$ 27,312	\$ (26,972)	\$ 8,473	\$ (8,857)
Total ALM and yield enhancement	\$ 55,576	\$ (55,236)	\$ 44,111	\$ (46,458)

Fair values of over-the-counter derivative instruments are determined using pricing models that take into account current market and contractual prices of underlying instruments as well as time value and yield curve or volatility factors underlying the positions.

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The table below summarizes the notional amounts by counterparty:

	2007	2006
<i>(in thousands)</i>		
ALM		
Federally regulated banks	\$ 109,736	\$ 1,158,188
Credit unions	109,736	129,007
Total ALM	\$ 219,472	\$ 1,287,195
Yield enhancement		
Federally regulated banks	\$ 4,332,689	\$ 3,429,086
Credit unions	1,901,637	1,550,088
Others	65,000	872,000
Total yield enhancement	\$ 6,299,326	\$ 5,851,174
Total ALM and yield enhancement	\$ 6,518,798	\$ 7,138,369

The following table summarizes the notional amounts, by remaining term to maturity, of Central's derivative portfolio at December 31, 2007. It segregates derivative instruments between those used by Central in its yield enhancement activities and those used to manage its exposures to currency and interest rate fluctuations as part of Central's asset liability management program.

				2007	2006
<i>(in thousands)</i>	Within 1 year	1 to 5 years	Over 5 years	Total	Total
ALM					
Interest rate contracts:					
Interest rate swaps	\$ -	\$ -	\$ -	\$ -	\$ 1,029,181
Equity contracts:					
Options written	36,854	72,882	-	109,736	129,007
Options purchased	36,854	72,882	-	109,736	129,007
Total ALM	\$ 73,708	\$ 145,764	\$ -	\$ 219,472	\$ 1,287,195
Yield enhancement					
Interest rate contracts:					
Interest rate swaps	\$ 2,994,520	\$ 2,849,630	\$ 193,868	\$ 6,038,018	\$ 3,749,346
Forward rate agreements	-	-	-	-	900,000
Options written	-	-	-	-	250,000
Options purchased	50,000	-	-	50,000	50,000
Exchange traded futures	-	-	-	-	857,000
Foreign exchange contracts:					
Spot and forward contracts	202,406	8,902	-	211,308	44,828
Total yield enhancement	\$ 3,246,926	\$ 2,858,532	\$ 193,868	\$ 6,299,326	\$ 5,851,174
Total ALM and yield enhancement	\$ 3,320,634	\$ 3,004,296	\$ 193,868	\$ 6,518,798	\$ 7,138,369

17. Interest rate sensitivity

Central uses interest rate sensitivity and value-at-risk analysis ("VaR") to monitor and manage interest rate risk.

Interest rate sensitivity measures the difference between the amount of assets and liabilities that reprice in a particular time period, plus the net derivative instruments repricing in the

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same period. The derivative instrument gap represents the notional amounts of financial instruments such as interest rate swaps, options and forward rate agreements, which are used to manage interest rate risk.

Central's interest rate sensitivity position at December 31, 2007, as presented in the following table, is based upon the earlier of contractual repricing or maturity date of assets and liabilities. The table shows the cumulative gaps at various intervals with the impact of derivative instrument contracts shown separately. A sustained increase in interest rates of 100 basis points would lower Central's forecast interest margin by 3.6%.

Simulation modeling and value-at-risk analyses allow Central to review its interest rate exposure more dynamically. VaR measures the change of the present value of future cash flows for a potential change in interest rates at a specified confidence level. Simulation models take explicit account of pricing strategies, the growth, volume and mix of future business, in addition to future changes in interest rates.

<i>(in thousands)</i>	Earlier of contractual repricing or maturity periods					Non-rate sensitive	Total	Average yield %
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years			
Assets								
Cash resources	\$ 158,546	\$ -	\$ -	\$ -	\$ -	\$ 33,401	\$ 191,947	3.34
Securities	719,269	237,795	78,277	44,743	17,738	199,852	1,297,674	4.06
Securities purchased under resale agreements	-	-	-	-	-	-	-	-
Loans	573,140	4,188	13,164	47,150	3,595	-	641,237	5.32
Derivative instruments	-	-	-	-	-	55,576	55,576	-
Other assets	-	-	-	-	-	12,516	12,516	-
	\$ 1,450,955	\$ 241,983	\$ 91,441	\$ 91,893	\$ 21,333	\$ 301,345	\$ 2,198,950	4.24
Weighted average yield rate (%)	4.74	4.92	4.86	5.52	4.74			
Liabilities and members' equity								
Members' deposits	\$ 921,638	\$ 325,392	\$ 318,150	\$ 374,165	\$ -	\$ 27,998	\$ 1,967,343	4.01
Other liabilities & dividend payable	-	-	-	-	-	11,620	11,620	-
Derivative instruments	-	-	-	-	-	55,236	55,236	-
Obligations related to securities sold under repurchase agreements	-	-	-	-	-	-	-	-
Obligations related to securities sold short	-	-	-	-	-	-	-	-
Commercial paper	19,923	-	-	-	-	-	19,923	4.89
Membership shares	-	-	-	-	-	140,154	140,154	-
Retained earnings	-	-	-	-	-	4,888	4,888	-
Accumulated other comprehensive income (loss)	-	-	-	-	-	(214)	(214)	-
	\$ 941,561	\$ 325,392	\$ 318,150	\$ 374,165	\$ -	\$ 239,682	\$ 2,198,950	3.63
Weighted average yield rate (%)	3.89	4.27	4.32	4.20	-			
Balance sheet gap	\$ 509,394	\$ (83,409)	\$ (226,709)	\$ (282,272)	\$ 21,333	\$ 61,663	\$ -	0.61
Derivative instrument gap								
Receiving	2,736,380	661,534	619,060	1,972,177	98,867	430,780	6,518,798	4.42
Paying	(3,611,380)	(354,734)	(393,597)	(1,583,307)	(95,000)	(480,780)	(6,518,798)	(4.54)
Derivative instrument gap	(875,000)	306,800	225,463	388,870	3,867	(50,000)	-	(0.12)
Weighted average yield (%)								
Receiving	4.36	4.39	4.59	4.43	4.73			
Paying	(4.60)	(4.56)	(4.43)	(4.41)	(4.75)			
Total interest rate sensitivity gap	\$ (365,606)	\$ 223,391	\$ (1,246)	\$ 106,598	\$ 25,200	\$ 11,663	\$ -	0.48
Cumulative interest rate sensitivity gap	\$ (365,606)	\$ (142,215)	\$ (143,461)	\$ (36,863)	\$ (11,663)	\$ -	\$ -	

18. Fair value of financial instruments

The fair value amounts of Central's financial instruments have been estimated using the valuation methods and assumptions, which are outlined below:

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(a) Financial instruments valued at carrying value

The carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values due to their short-term nature or repricing frequency. These financial instruments include cash resources, certain other assets, other liabilities, and membership shares.

(b) Securities other than co-operative investments

The estimated fair values of securities other than co-operative investments are based on either observable market prices or discounting the expected future cash flows at prevailing market interest rates for investments with similar terms and credit risks.

(c) Co-operative investments

Co-operative investments are carried at cost. As there is no available trading market for co-operative shares, fair values cannot be readily determined with sufficient reliability, and the estimated fair value of securities presented in these consolidated financial statements does not include any unrealized gains or losses for co-operative investments. The following table presents the book values reflected in these consolidated financial statements, Central's share of the ownership in the companies, and Central's proportionate equity interest at the last reported fiscal year end, December 31, 2006 (September 30, 2007 for Ethical Funds Inc., Credential Financial Inc. and Credential Securities Inc.) in the underlying book values reported by each of the co-operatives.

In accordance with the by-laws of The Co-operators Group, Central's equity interest in the net assets of The Co-operators Group is realizable only in the event of liquidation, dissolution or windup. Other co-operative investments are, in addition, also transferable.

<i>(in thousands)</i>	2007	2006		
	Book value	Book value	Ownership share	Equity interest
Credit Union Central of Canada	\$ 5,439	\$ 5,198	19%	\$ 5,895
Credential Financial Inc.:				
Class B common shares	17	17	8%	1,292
Credential Securities Inc.:				
Debentures	657	657	8%	657
Concentra Financial:				
Member shares	3	3	5%	3
Class A Series 1 shares	4,494	4,494	9%	7,901
Ethical Funds Inc.:				
Shares	-	-	17%	2,433
Subordinated shareholders loan	661	661	17%	661
Mutual Fund startup contributions	442	437	-	437
The Co-operators Group:				
Co-op shares	1	1	14%	152,642
Member participation shares	1,121	828	5%	827
Class B Series A non-cumulative preference shares redeemable at par	213	213	3%	213
Class C Series A non-cumulative preference shares	1,250	1,250	14%	1,250
Other Centrals	10	11	-	11
	\$ 14,308	\$ 13,770		\$ 174,222

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(d) Loans

For variable rate loans that reprice frequently, estimated fair values are assumed to be equal to the carrying value. The fair value of other loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.

(e) Members' deposits

For variable rate deposits that reprice frequently, estimated fair values are assumed to be equal to the carrying value. The fair value of other deposits is determined by discounting the contractual cash flows using market interest rates for deposits with similar terms and risks.

The estimated fair value of Central's financial instruments at December 31, 2007, was as follows:

<i>(in thousands)</i>	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash resources	\$ 191,947	\$ 191,947	\$ 246,297	\$ 246,297
Securities	1,297,674	1,297,674	1,190,775	1,190,544
Securities purchased under resale agreements	-	-	136,445	136,394
Loans	641,237	642,638	652,504	653,113
Derivative instruments	55,576	55,576	8,473	8,473
Other assets	10,612	10,612	4,755	4,755
	\$ 2,197,046	\$ 2,198,447	\$ 2,239,249	\$ 2,239,576
Liabilities				
Members' deposits	\$ 1,967,343	\$ 1,967,343	\$ 1,636,932	\$ 1,635,703
Other liabilities	11,620	11,620	11,539	11,539
Derivative instruments	55,236	55,236	8,857	8,857
Commercial paper	19,923	19,923	294,157	294,119
Obligations related to securities sold short	-	-	163,612	164,212
Membership shares	140,154	140,154	98,494	98,494
	\$ 2,194,276	\$ 2,194,276	\$ 2,213,591	\$ 2,212,924
Off-balance sheet				
ALM interest rate contracts	\$ -	\$ -	\$ -	\$ (1,963)
	\$ -	\$ -	\$ -	\$ (1,963)

The fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties; however, some of Central's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as fixed assets. As explained in Note 18(c), the fair value of co-operative investments cannot be readily determined. Due to 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 financial instruments.

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Interest rate sensitivity is the main cause of change in the fair value of Central's financial instruments. The carrying values of Central's financial instruments are adjusted to reflect unrealized increases or decreases in fair value due to interest rate changes, except for those instruments designated as loans and receivables or held to maturity, which are carried at their amortized cost.

The following table summarizes Central's valuation methods used in 2007:

December 31, 2007 Fair Value based on:

	Third party valuation providers	Internal valuation models	Par value/ book value	Counterparty quotes	Total fair value
<i>(in thousands)</i>					
Cash	\$ -	\$ 158,543	\$ 33,404	\$ -	\$ 191,947
Securities	-	-	-	-	-
Government	67,589	743	-	-	68,332
Chartered bank	331,824	582,945	-	-	914,770
Non-bank asset-backed commercial paper	-	117,116	-	-	117,116
Other debt	50,137	106,377	-	26,635	183,148
Affiliates	-	-	14,308	-	14,308
Derivative instruments	-	26,954	-	28,622	55,576
Loans	-	642,638	-	-	642,638
Other assets	-	-	10,612	-	10,612
	<u>\$ 449,550</u>	<u>\$ 1,635,316</u>	<u>\$ 58,324</u>	<u>\$ 55,257</u>	<u>\$ 2,198,447</u>
Deposits	\$ -	\$ 1,967,343	\$ -	\$ -	\$ 1,967,343
Other liabilities	-	-	11,620	-	11,620
Derivative Instruments	-	26,614	-	28,622	55,236
Commercial paper	-	19,923	-	-	19,923
Membership shares	-	-	140,154	-	140,154
	<u>\$ -</u>	<u>\$ 2,013,880</u>	<u>\$ 151,774</u>	<u>\$ 28,622</u>	<u>\$ 2,194,276</u>

19. Segment disclosures

Central's reportable segments are strategic business units that offer different products and services. Central has three reportable segments: financial, trade and shared services. Financial Services provides lending, liquidity, paper clearing, and electronic banking services to member credit unions. Trade Services provides government relations, market development, communications, reference publications and regional development support to member credit unions. Shared Services includes accounting, information and technology services, corporate administration, internal human resources, general counsel and democracy and governance. Shared Services are provided internally to the other two business units at Central and are allocated based on usage.

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Central evaluates performances based on the profit or loss from ongoing operations before restructuring costs and other unusual items, dividends and income taxes.

The following is an analysis of Central's income from operations and total assets by operating segment:

2007 (in thousands)	Financial Services	Trade Services	Shared Services	Total
Financial margin	\$ 11,067	\$ -	\$ -	\$ 11,067
Non-interest revenue	16,545	4,990	1,741	23,276
Non-interest expense	16,831	2,824	10,732	30,387
Net contribution before shared service allocations	10,781	2,166	(8,991)	3,956
Shared service allocations	(7,460)	(1,531)	8,991	-
Income from ongoing operations	\$ 3,321	\$ 635	\$ -	\$ 3,956
Amortization of fixed assets	\$ 168	\$ 16	\$ 540	\$ 724
Segment assets (in millions)	\$ 2,191.7	\$ 1.0	\$ 6.3	\$ 2,199.0

2006 (in thousands)	Financial Services	Trade Services	Shared Services	Total
Financial margin	\$ 15,806	\$ -	\$ -	\$ 15,806
Non-interest revenue	15,665	4,186	1,462	21,313
Non-interest expense	15,813	1,889	12,323	30,025
Net contribution before shared service allocations	15,658	2,297	(10,861)	7,094
Shared service allocations	(9,089)	(1,772)	10,861	-
Income from ongoing operations	\$ 6,569	\$ 525	\$ -	\$ 7,094
Amortization of fixed assets	\$ 175	\$ 23	\$ 597	\$ 795
Segment assets (in millions)	\$ 2,237.3	\$ 0.2	\$ 3.5	\$ 2,241.0

20. Employee future benefits

Central sponsors both a defined benefit and a defined contribution plan providing pension, other retirement and post-employment benefits to eligible employees. Central measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year. Actuarial valuations for Central's principal pension and other benefit plans are generally required every three years. The most recent actuarial valuation was conducted as of December 31, 2005, and the date of the next required valuation is December 31, 2008. Actuarial valuations of the pension plan are made for Central's benefit plans based on a market-rated discount rate.

CREDIT UNION CENTRAL OF ONTARIO LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

The following table presents information related to Central's benefit plans, including the amount recorded on the Consolidated Balance Sheet and the components of net periodic benefit cost:

<i>(in thousands)</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
<i>Reconciliation of accrued defined benefit obligation</i>				
Accrued benefit obligation, beginning of year	\$ 8,309	\$ 8,212	\$ 6,059	\$ 3,135
Service cost	156	140	413	392
Interest cost	443	424	336	307
Employees' contributions	48	58	-	-
Benefits paid	(293)	(385)	(135)	(190)
Plan amendments	73	-	-	-
Actuarial losses (gains)	(611)	(140)	(670)	2,415
Defined benefit obligation, end of year	\$ 8,125	\$ 8,309	\$ 6,003	\$ 6,059
<i>Reconciliation of fair value of plan assets</i>				
Fair value of plan assets, beginning of year	\$ 7,452	\$ 7,079	\$ -	\$ -
Actual return on plan assets	672	301	-	-
Employer contributions	449	399	135	190
Employee contributions	48	58	-	-
Benefits paid	(293)	(385)	(135)	(190)
Fair value of plan assets, end of year	\$ 8,328	\$ 7,452	\$ -	\$ -

The assumptions used in the measurement of Central's defined benefit obligations are shown in the following table:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate for current year expense	5.25%	5.25%	5.25%	5.25%
Discount rate for accrued benefit obligations	5.75%	5.25%	5.75%	5.25%
Expected long-term rate of return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Assumed overall health care cost trend rate	-	-	4.50%-8.00%	4.50-8.50%

<i>(in thousands)</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
<i>Funded status</i>				
Defined benefit obligation – end of year	\$ 8,125	\$ 8,309	\$ 6,003	\$ 6,059
Fair value of assets – end of year	8,328	7,452	-	-
Funded status – plan surplus/(deficit)	203	(857)	(6,003)	(6,059)
Employer contributions during period from measurement date to end of year	82	164	29	-
Unamortized transitional obligation	26	29	1,482	1,596
Unamortized net actuarial loss (gain)	1,748	2,613	1,393	2,149
Unamortized past service cost	326	274	-	-
Accrued benefit asset/(liability)	\$ 2,385	\$ 2,223	\$ (3,099)	\$ (2,314)

CREDIT UNION CENTRAL OF ONTARIO LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

The following table provides the amounts recognized in the Consolidated Balance Sheet at December 31, 2007:

<i>(in thousands)</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Prepaid benefit costs recorded in <i>Other assets</i>	\$ 2,385	\$ 2,223	\$ -	\$ -
Accrued benefit liability recorded in <i>Other liabilities</i>	-	-	(3,099)	(2,314)
Net amount recognized	\$ 2,385	\$ 2,223	\$ (3,099)	\$ (2,314)

Central's pension plan defined contribution, defined benefit and other expenses are as follows:

<i>(in thousands)</i>	Defined Contribution		Defined Benefit		Other Benefits	
	2007	2006	2007	2006	2007	2006
Service cost	\$ 367	\$ 350	\$ 156	\$ 140	\$ 413	\$ 392
Interest cost	-	-	443	424	336	307
Actual negative (positive) return on plan assets	-	-	(672)	(301)	-	-
Experience gain (loss)	-	-	143	(197)	-	-
Amortization of net transition obligations	-	-	3	3	114	114
Amortization of past service costs	-	-	21	16	-	-
Amortization of net actuarial (gain)/loss	-	-	111	101	86	89
Net benefit plan expense	\$ 367	\$ 350	\$ 205	\$ 186	\$ 949	\$ 902

(a) Continuity of actuarial (gains) losses:

<i>(in thousands)</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Unrecognized actuarial (gain) loss, beginning of year	\$ 2,613	\$ 2,657	\$ 2,149	\$ (177)
(Gain) loss arising from changes in assumptions	(611)	(140)	(670)	2,415
(Excess) shortfall of actual return on plan assets	(143)	197	-	-
Amortization of unrecognized actuarial loss	(111)	(101)	(86)	(89)
Unrecognized actuarial (gain) loss, end of year	\$ 1,748	\$ 2,613	\$ 1,393	\$ 2,149

(b) Fair value of plan assets at year end are comprised of:

	Defined Contribution		Defined Benefit	
	2007	2006	2007	2006
Equities	61.0%	58.0%	55.6%	58.0%
Fixed income investments	28.6	35.2	33.3	35.2
Other	10.4	6.8	11.1	6.8
Total	100.0%	100.0%	100.0%	100.0%

CREDIT UNION CENTRAL OF ONTARIO LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

(c) Continuity of unrecognized cost (benefit) of plan amendments:

<i>(in thousands)</i>	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Unrecognized cost of plan amendments, beginning of year	\$ 274	\$ 290	\$ -	\$ -
Cost (benefit) of plan amendments during the year	73	-	-	-
Amortization of unrecognized cost of plan amendments	(21)	(16)	-	-
Unrecognized cost (benefit) of plan amendments, end of year	\$ 326	\$ 274	\$ -	\$ -

(d) Sensitivity of assumptions

Key weighted-average economic assumptions used in measuring the pension benefit liability, other benefits liability and related expenses are outlined below. The sensitivity analysis provided in the table should be used with caution as it is hypothetical and changes in each assumption may not be linear and have been calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

Pension Benefits <i>(in thousands)</i>	Benefit Liability	Benefits Expense
Discount rate – 5.75%		
Impact of: 1% increase	\$ (1,098)	\$ (30)
1% decrease	1,420	36
Expected rate of return on plan assets – 7.0%		
Impact of: 1% increase	-	(74)
1% decrease	-	74
Rate of compensation increase – 3.0%		
Impact of: 1% increase	562	68
1% decrease	(485)	(56)
Other Benefits <i>(in thousands)</i>	Benefit Liability	Benefits Expense
Discount Rate – 5.75%		
Assumed overall health care cost trend rate (4.5-8.0%) ¹		
Impact of: 1% increase	\$ 1,295	\$ 207
1% decrease	(997)	(154)

¹ Trending down to 4.5% in 2014 and remaining constant thereafter

CREDIT UNION CENTRAL OF ONTARIO LIMITED

FIVE YEAR FINANCIAL REVIEW

Components of Total Assets *(in thousands)*

	2003	2004	2005	2006	2007
Cash resources	\$ 72,307	\$ 194,641	\$ 188,774	\$ 246,297	\$ 191,947
Securities	1,222,065	1,088,312	1,032,618	1,190,775	1,297,674
Securities purchased under resale agreements	185,794	27,960	234,788	136,445	--
Loans	236,550	341,635	500,386	652,504	641,237
Derivative Instruments	--	21,240	11,538	8,473	55,576
Other assets	9,108	5,315	8,561	6,815	12,516
Total assets	\$ 1,725,824	\$ 1,679,103	\$ 1,976,665	\$ 2,241,309	\$ 2,198,950

Effective January 1, 2007, Central implemented new accounting standards and elected the fair value option for a majority of its financial instruments excluding loans and co-operative investments. These new accounting standards now require all derivative instruments to be recorded at fair value; as opposed to only those held for yield enhancement purposes in prior years. Accrued interest has also been reclassified with their respective principle balances and the prior years' figures have been restated to conform to the current year's presentation.

Components of Liabilities & Retained Earnings *(in thousands)*

	2003	2004	2005	2006	2007
Members' deposits	\$ 1,325,611	\$ 1,286,717	\$ 1,475,086	\$ 1,636,932	\$ 1,967,343
External borrowings & other obligations	280,197	255,327	362,210	457,769	19,923
Other liabilities	14,113	6,673	11,056	11,539	11,620
Derivative Instruments	733	23,479	10,357	8,857	55,236
Membership shares	85,942	85,473	92,949	98,494	140,154
Retained earnings & Accumulated other comprehensive Income	19,228	21,434	25,007	27,718	4,674
Total liabilities & retained earnings	\$ 1,725,824	\$ 1,679,103	\$ 1,976,665	\$ 2,241,309	\$ 2,198,950

Changes to Central's source of funding reflects four major contributing factors as follows:

- System asset growth of approximately \$1.1 billion;
- Liquidity reserve deposit requirements increased to 7% of member assets in June 2007;
- Reduction in external borrowings as a result of the above two items;
- Share capital call of an additional 0.20% of member assets in November 2007.

CREDIT UNION CENTRAL OF ONTARIO LIMITED FIVE YEAR FINANCIAL REVIEW

Financial Margin *(in thousands)*

	2003	2004	2005	2006	2007
Income					
Interest from cash resources & securities	\$ 45,573	\$ 32,055	\$ 37,950	\$ 60,595	\$ 55,118
Interest from loans	10,831	12,912	17,115	28,918	41,613
Expense					
Interest expense	(40,365)	(34,225)	(40,257)	(71,764)	(84,913)
Provision for credit losses	(125)	(14)	(664)	(1,943)	(751)
Financial margin	\$ 15,914	\$ 10,728	\$ 14,144	\$ 15,806	\$ 11,067

Central's financial margin of \$11 million reflects non-performing asset-backed commercial paper partially offset by favourable results in Central's loan portfolio.

Income from Ongoing Operations *(in thousands)*

	2003	2004	2005	2006	2007
Income					
Financial margin	\$ 15,914	\$ 10,728	\$ 14,144	\$ 15,806	\$ 11,067
Membership dues	3,328	3,330	4,060	4,001	4,762
Financial services and other income	16,593	16,641	16,271	17,312	18,514
Expense					
Salaries & benefits	(12,701)	(10,882)	(11,869)	(12,778)	(11,946)
Administrative & other	(12,454)	(12,630)	(12,691)	(13,393)	(14,647)
Occupancy & amortization	(4,624)	(4,649)	(3,697)	(3,854)	(3,794)
Income from ongoing operations	\$ 6,056	\$ 2,538	\$ 6,218	\$ 7,094	\$ 3,956

Central evaluates division and department performance based on the profit or loss from ongoing operations before restructuring costs and other unusual items, dividends and income taxes. Membership dues and Administrative & other expenses both reflect CUCC assessments for the National Awareness / SME initiative of \$691 thousand in accordance with a special resolution passed at Central's 2006 Annual General Meeting.