

*This offering statement must be delivered to every purchaser of the securities described herein prior to the purchaser becoming obligated to complete the purchase and, upon request, to any prospective purchaser and member.*

*No official of the Government of the Province of Ontario has considered the merits of the matters addressed in this offering statement.*

*The securities being offered are not guaranteed or insured by the Deposit Insurance Corporation of Ontario or any similar public agency.*

*The prospective purchaser of these securities should carefully review the offering statement and any other documents it refers to, examine in particular the section on risk factors beginning on page 16 and, further, may wish to consult a financial or tax advisor about this investment.*

**Ottawa Carleton Credit Union Limited**  
**OFFERING STATEMENT**  
*dated March 31, 2000*  
**MINIMUM \$1,500,000, MAXIMUM \$2,500,000**  
**CLASS B SPECIAL SHARES, SERIES 1**  
**(NON-CUMULATIVE, NON-VOTING,**  
**NON-PARTICIPATING SPECIAL SHARES)**  
**("Class B Investment Shares")**

*The subscription price for each Class B Investment Share will be \$1.00 per share with a minimum of 1,000 shares per member which may be subscribed for \$1,000.00, to a maximum of 125,000 shares per member which may be subscribed for \$125,000.00. However, no member may purchase more than five per cent of the Class B Investment Shares sold hereunder (the "Maximum Permissible Holding").*

*There is no market through which these securities may be sold.*

*The purchaser of these securities may reverse his/her decision to purchase the securities if he/she provides notice in writing or by telegraph to the person from whom the purchaser purchases the security within two days, excluding weekends and holidays, of having been provided with a copy of the latest offering statement.*

*The Class B Investment Shares are subject to the transfer and redemption restrictions under the Credit Unions and Caisses Populaires Act, 1994 and the restrictions under this Offering Statement as set out on pages 10 to 13.*

**THE SECURITIES OFFERED ARE NOT DEPOSITS. THE SECURITIES OFFERED ARE NOT INSURED. THE DIVIDENDS ON THE SECURITIES ARE NOT GUARANTEED.**

## GLOSSARY OF TERMS

- “Act” – The *Credit Unions and Caisses Populaires Act, 1994*, as now enacted or as the same may from time to time be amended, re-enacted or replaced.
- “Administration” - a legal status ordered by the Deposit Insurance Corporation of Ontario (“DICO”) in any of the following circumstances: (1) DICO, on reasonable grounds, believes that a credit union is conducting its affairs in a way that might be expected to harm the interests of members, depositors or shareholders or that tends to increase the risk of claims against the deposit insurer, but that Supervision by DICO as stabilization authority would, in this case, not be appropriate; (2) A credit union has contravened an order of DICO acting as a stabilization authority; (3) DICO is of the opinion that the assets of a credit union are not sufficient to give adequate protection to its depositors; (4) A credit union has failed to pay any liability that is due or, in the opinion of DICO, will not be able to pay its liabilities as they become due; (5) DICO, as a credit union's stabilization authority, makes a written request that the credit union be placed under Administration; or (6) DICO has received a report from the Superintendent of Financial Services that the Superintendent has ordered a credit union to cease operations; under which DICO has the power to: (a) Carry on, manage and conduct the operations of a credit union; (b) Preserve, maintain, realize, dispose of and add to the property of a credit union; (c) Receive the income and revenues of a credit union; (d) Exercise the powers of a credit union and of the directors, officers, loan officers and credit committees; (e) Exclude the directors of a credit union and its officers, committee members, employees and agents from the property and business of a credit union; and (f) Require a credit union, with or without obtaining member and shareholder consent, to, (i) amalgamate with another credit union, (ii) dispose of its assets and liabilities, or (iii) be wound up.
- “Canadian Payments Association” – an association of Canadian financial institutions, for the purpose of assisting its members in the clearing of their clients’ cheques and electronic debit items.
- “Commercial Loan” – a loan, other than the following, made to any person for any purpose: an agricultural loan; a bridge loan; an institutional loan; a Personal Loan; a Mortgage Loan; a loan to an unincorporated association; a deposit made by a credit union with a financial institution; a loan fully secured by a deposit with a financial institution (including the credit union making the loan); a loan fully secured by debt obligations guaranteed by a financial institution other than the credit union making the loan; an investment in a debt obligation that is fully guaranteed by a stabilization authority or by a financial institution other than the credit union making the loan, fully secured by deposits with a financial institution (including the credit union making the loan), or fully secured by debt obligations that are fully guaranteed by a financial institution other than the credit union making the loan; an investment in a debt obligation issued by the federal government, a provincial or territorial government, a municipality, or any agency of such a government or municipality; an investment in a debt obligation guaranteed by, or fully secured by securities issued by the federal government, a provincial or territorial government, a municipality, or by an agency of such a government or municipality; an investment in a debt obligation issued by a league; an investment in a debt obligation that is widely-distributed; an investment in shares or ownership interests that are widely-distributed; an investment in a participating share; or an investment in shares of a league.
- “Credit Union Central of Canada” (CUCC) - a financial service co-operative operating at the national level, owned primarily by provincial credit union centrals, providing links to the Canadian Payments Association, the Interac and PLUS networks.
- “Credit Union Central of Ontario” (CUCO) - a financial service co-operative operating at the provincial level, primarily owned by about 270 member credit unions, which includes Ottawa Carleton Credit Union Limited, and providing access to a liquidity pool and clearing, investment, credit and other services.
- “Institutional Loan” - a loan given to the Government of Canada or an agency of the Government; the government of a province or territory of Canada or an agency of one; a municipality or an agency of one; a school board; or an entity funded primarily by the Government of Canada, the government of a province or territory of Canada or a municipality.

- “Interac” – a national network of automated banking machines and point-of-sale terminals, enabling clients of a financial institution to use automated banking machines and terminals not owned and operated by that financial institution.
- “Leverage Ratio” - total Regulatory Capital divided by total assets.
- “Membership Shares” – shares required, according to a credit union’s by-laws, to maintain a membership in the Credit Union.
- “Mortgage Loan” - loan made for the purpose of purchasing, renovating or improving residential property, and secured by a mortgage on a single-family residential property occupied by the borrower; or exceeding \$25,000 and given to an individual for personal, family or household use, and secured by a mortgage on a residential property consisting of four units or less, one of which units is occupied by the borrower.
- “Net Interest Income” - the difference between the interest the credit union earns on loans to members and on investments and the interest that the credit union pays on deposits held by members and on borrowings from external sources (such as CUCO).
- “Non-cumulative” - dividends not declared or paid for one fiscal year are not carried forward or added to the dividend of a following year but are forever extinguished.
- “Non-participating” - in case of dissolution, shareholders receive only the Redemption Amount (see below) and do not participate in receiving any of the residual value of the credit union's assets.
- “Non-voting” - holders vote only at shareholder meetings as required by the Act.
- “Personal Loan” - loan given to an individual for personal, family or household use; or to an individual or entity for any other use if the loan, and all other loans outstanding to that individual or entity, does not exceed \$25,000.
- “PLUS” – an international network of automated banking machines, functioning much like Interac.
- “Redemption Amount” - the amount a shareholder receives on redemption or at which shares are transferred from one member to another; this amount is generally equal to the issue price of the shares (\$1 per share) plus any dividends which have been declared but not yet paid.
- “Regulatory Capital” – liabilities qualifying as regulatory capital, and members' equity (Membership Shares, Class A Shares, Class B Investment Shares, and undivided earnings).
- “Risk-Weighted Assets” - the absolute value of assets in specified categories is multiplied by a percentage, varying between 0% and 100% depending on the risk attributed to each category. The sum of all the categories is the credit union's Risk-Weighted Assets.
- “Risk-Weighted Assets Ratio” – total Regulatory Capital divided by Risk-Weighted Assets.
- “Special Meeting” – a meeting of the members or shareholders of the Credit Union, other than its annual membership meeting.
- “Special Resolution” - a resolution that is not effective until it is passed by the board of directors and confirmed by a resolution passed by a majority of not less than two-thirds of the votes of the members or shareholders, as the case may be, present at the meeting in person or, as permitted by a credit union’s by-laws and articles of incorporation, by proxy, and voting.
- “Substantial Portion” - assets having an aggregate value equal to or greater than 15 per cent of a credit union's assets at the end of its previous fiscal year.
- “Supervision” - a legal status ordered by the Superintendent of Financial Services (the “Superintendent”) when: (1) A credit union asks, in writing, that it be subject to Supervision; (2) A credit union is not in compliance with prescribed Regulatory Capital or liquidity requirements; (3) The Superintendent has reasonable grounds for believing that a credit union is conducting its affairs in a way that, reasonably, might be expected to harm the interests of members or depositors or that tends to increase the risk of claims against the deposit insurer; (4) A credit union or an officer or director of it does not file, submit or deliver a report or document required to be filed, submitted or delivered under this Act within the time limits provided under this Act; (5) A credit union does not comply with a Superintendent’s enforcement order regarding an infringement of the Act; (6) A credit union is not complying with its own investment and lending policy; or (7) DICO, acting as stabilization authority, requests it; under which DICO, acting as stabilization authority, can: (a) order a credit

union to correct any practices that the authority feels are contributing to the problem or situation that caused the credit union to be ordered subject to its Supervision; (b) order a credit union and its directors, committee members, officers and employees not to exercise any powers of the credit union or of its directors, committee members, officers and employees; (c) establish guidelines for the operation of a credit union; (d) order a credit union not to declare or pay a dividend or to restrict the amount of a dividend to be paid to a rate or amount set by the authority; (e) attend meetings of a credit union's board and its credit and audit committee; and (f) propose by-laws for a credit union and amendments to its articles of incorporation.

## OFFERING STATEMENT SUMMARY

*The following is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this offering statement. Certain terms with initial capital letters are used throughout this Offering Statement and are defined in the "Glossary of Terms" on pages i through iii, inclusive.*

### The Credit Union

Ottawa Carleton Credit Union Limited ("Ottawa Carleton" or the "Credit Union") was formed by the amalgamation, with effect from October 1<sup>st</sup>, 1999, of the former Ottawa Carleton Credit Union Limited (the "Former Ottawa Carleton") and Ottawa Citizen Employees Credit Union Limited ("Ottawa Citizen Employees"). The Former Ottawa Carleton was itself formed by the amalgamation, with effect from October 15<sup>th</sup>, 1998, of Ottawa Carleton Education Credit Union Limited ("Ottawa Carleton Education") and Ottawa Municipal Employees Credit Union Limited ("Ottawa Municipal Employees") to serve various employee groups in Ottawa. Both amalgamations, because it could clearly be determined for accounting purposes that there was an acquiring entity and an entity that was acquired, were accounted for using the purchase method, and the amalgamation reflected in the audited financial statements of the acquiring entity (*i.e.*, the Former Ottawa Carleton in the case of the amalgamation with Ottawa Citizen Employees, and Ottawa Carleton Education in the case of the amalgamation with Ottawa Municipal Employees). Ottawa Carleton's assets as of December 31<sup>st</sup>, 1999, were \$96,293,946, having increased from \$91,650,482 as the Former Ottawa Carleton at September 30<sup>th</sup>, 1999, \$72,057,655 as Ottawa Carleton Education at September 30<sup>th</sup>, 1998, and \$69,068,716 as Ottawa Carleton Education at September 30<sup>th</sup>, 1997.

Ottawa Carleton provides a broad range of financial services and products to approximately 9,549 members through 5 offices, all located in Ottawa and Nepean, Ontario. The Credit Union provides a full range of retail credit and non-credit financial services and products, and a broad range of commercial non-credit financial services and products; the Credit Union's commercial credit activity consists almost entirely of granting mortgages to members that would not qualify as Mortgage Loans because the mortgaged property is not occupied by its owner. See also "Business of Ottawa Carleton Credit Union Limited", on pages 5 to 7.

### The Offering

Ottawa Carleton offers for sale to members at \$1.00 per share, Class B Non-Cumulative, Non-Voting, Non-Participating Special Shares ("Class B Investment Shares") in the capital of the Credit Union. Class B Investment Shares are special, non-membership shares, and constitute part of the authorized capital of the Credit Union. Subscriptions will be accepted from members of Ottawa Carleton for a minimum of 1,000 Class B Investment Shares and a maximum of 125,000 Class B Investment Shares. No member, however, may purchase more than five per cent (5%) of the Class B Investment Shares ultimately sold hereunder. If a member's subscription exceeds the Maximum Permissible Holding, the Credit Union will honour the subscription up to the Maximum Permissible Holding, and refund all excess monies, with any applicable interest, to the member. Subscription, purchase and redemption of these shares are exclusively through Ottawa Carleton's offices. Transfer of such shares will only be effected through the Credit Union, and transfers are restricted to other members of the Credit Union and certain persons as specified in the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). Class B Investment Shares are not redeemable for five years following their issue, except where a holder of the shares dies or is expelled from membership in the Credit Union. All redemptions are at the discretion of the Board and are subject to a limit on the maximum number of shares which can be redeemed in any fiscal year. The Credit Union, at its option, may acquire the Class B Investment Shares at the Redemption Amount, for cancellation after a period of five years. See "Description of Securities Being Offered" on pages 10 to 13.

Subscriptions for the Class B Investment Shares shall be accepted as of the date hereof, and for a period of six months thereafter, or until the date on which subscriptions have been received for the maximum 2,500,000 Class B Investment Shares, or until the date on which the Board, having received subscriptions for at least the minimum 1,500,000 Class B Investment Shares but not for the maximum 2,500,000 Class B Investment Shares and noting that six months has not yet passed since the date of this offering statement, resolves to close the offering, whichever shall occur first (the "Closing Date"). The shares so subscribed shall be issued within sixty days of the Closing Date. The securities to be issued under this Offering Statement are not secured by any assets of the Credit Union and are not covered by deposit insurance or any other form of guarantee as to repayment of principal amount or dividends. The Class B Investment Shares will qualify as Regulatory Capital, to the extent permitted and as defined in the Act.

### **Use of Proceeds**

If fully subscribed, the gross proceeds to be derived by the Credit Union from the sale of the Class B Investment Shares shall be \$2,500,000. The costs of issuing these securities are not expected to exceed \$40,000, and these costs will be amortized over a period of five years. The estimated maximum net proceeds of this offering of securities are \$2,460,000. The principal use of the net proceeds, and purpose of this offering, is to enable the Credit Union both to continue to satisfy the legal requirements to maintain a minimum level of Regulatory Capital, as set out in Section 84 of the Act, and also to comply with sound business practices, particularly given changes that it is required to make in its membership share requirement; see pages 2 and 8 for details. Based on a Leverage Ratio of 5% and assuming that both total assets and Regulatory Capital (other than the completion of this offering) remained as stated in the Credit Union's unaudited financial statements as of December 31<sup>st</sup>, 1999, the Credit Union's Regulatory Capital, if this offering is fully subscribed, could support additional growth of \$54,064,634, and the Credit Union's Leverage Ratio would be 7.81%. If, however, the offering is only minimally subscribed, on the same conditions the Credit Union's Regulatory Capital could support additional growth of \$34,064,634, and the Credit Union's Leverage Ratio would be 6.77%. Cash generated from the issuance of the securities, to the extent it represents new cash to the Credit Union rather than being a transfer from existing accounts, will be used for general business purposes, being primarily the lending of money to members and the investment of surplus funds in high quality investments; the Credit Union does not, however, anticipate receiving a significant amount of new cash as a result of this offering. See pages 22 and 23.

### **Risk Factors**

Investments in the Class B Investment Shares are subject to a number of risk factors, including regulatory redemption restrictions, the continuous need to maintain minimum Regulatory Capital levels, the uncertainty of payment of dividends, credit risk, risk of loss on investments, liquidity risk, interest rate risk, potential regulatory actions, reliance on key management, geographic/industry risk, and competitive risk. See "Risk Factors" on pages 16 to 21.

### **Dividend Policy**

The dividend policy of the Ottawa Carleton Board of Directors for Class B Investment Shares shall be to pay a dividend or dividends in every year in which there are sufficient profits to do so while still fulfilling all other Regulatory Capital and operational requirements. The dividend rate shall be established by the Board, in its sole and absolute discretion, based on financial and other considerations prevailing at the time of the declarations. The Board shall consider whether or not a dividend shall be declared, and at what rate and in which manner, at least annually following each fiscal year end and before each annual general meeting of members. There can be no guarantee that a dividend will be paid in each year; however, it is the policy of the Board that an appropriate dividend will be declared and paid in each year, provided that the Credit Union is in compliance with Section 84 of the Act. The Board has defined an appropriate dividend rate on the purchase price of the Class B Investment Shares to be a rate which exceeds by 1.0% the average of the posted rates offered by the Credit Union on its five-year term deposits during the fiscal year regarding which the dividend is to be paid, weighted for the number of days each rate was offered during the year. It is the intention of the Credit Union's Board to pay these dividends in the form of additional Class B Investment Shares. The Credit Union will pro-rate the dividend in the year the shares are issued. The Credit Union's dividend policy is subject to change at any time, at the Board's discretion. See page 22.

### Summary Financial Information

This summary financial information should be read in conjunction with the financial statements at page 36, including the notes to those statements, and the discussion of operating results and variations beginning at page 30.

#### BALANCE SHEET (in thousands)

	<u>December 31<sup>st</sup>, 1999</u>	<u>September 30<sup>th</sup>, 1999</u>	<u>September 30<sup>th</sup>, 1998</u>	<u>September 30<sup>th</sup>, 1997</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$16,718	\$14,686	\$6,658	\$1,279
Loans to members, net of provision for losses	69,678	69,498	58,871	60,840
Investments	7,884	5,274	4,878	5,321
Capital assets, net of amortization	1,415	1,395	1,260	1,310
Other assets	<u>599</u>	<u>797</u>	<u>391</u>	<u>318</u>
<b>Total assets</b>	<b><u>\$96,294</u></b>	<b><u>\$91,650</u></b>	<b><u>\$72,058</u></b>	<b><u>\$69,068</u></b>
<b>LIABILITIES</b>				
Liabilities to non-members	\$772	\$726	\$694	\$792
Deferred income taxes	39	37	35	35
Members' deposits	<u>90,465</u>	<u>86,071</u>	<u>67,541</u>	<u>64,852</u>
	\$91,276	\$86,834	\$68,270	\$65,679
<b><u>Liabilities qualifying as Regulatory Capital</u></b>				
Membership Shares	<u>\$784</u>	<u>\$752</u>	<u>\$443</u>	<u>\$422</u>
	\$92,060	\$87,586	\$68,713	\$66,101
<b>MEMBERS' EQUITY</b>				
Undivided earnings	<u>\$4,234</u>	<u>\$4,064</u>	<u>\$3,345</u>	<u>\$2,967</u>
<b>Total liabilities and members' equity</b>	<b><u>\$96,294</u></b>	<b><u>\$91,650</u></b>	<b><u>\$72,058</u></b>	<b><u>\$69,068</u></b>

**INCOME STATEMENT (in thousands)**

	<u>Three Months</u> <u>Ending</u> <u>December 31<sup>st</sup>,</u> <u>1999</u>	<u>Twelve Months</u> <u>Ending</u> <u>September 30<sup>th</sup>,</u> <u>1999</u>	<u>Twelve Months</u> <u>Ending</u> <u>September 30<sup>th</sup>,</u> <u>1998</u>	<u>Twelve Months</u> <u>Ending</u> <u>September 30<sup>th</sup>,</u> <u>1997</u>
<b>Financial revenue</b>	\$1,559	\$5,976	\$4,794	\$4,616
<b>Financial expense</b>	<u>771</u>	<u>3,001</u>	<u>2,339</u>	<u>2,570</u>
<b>Net interest income</b>	\$788	\$2,975	\$2,455	\$2,046
<b>Other income</b>	<u>\$138</u>	<u>\$600</u>	<u>\$415</u>	<u>\$405</u>
<b>Income after financial expenses</b>	\$926	\$3,575	\$2,870	\$2,451
<b>Administrative expenses</b>	<u>\$786</u>	<u>\$3,106</u>	<u>\$2,320</u>	<u>\$2,085</u>
<b>Operating income</b>	\$140	\$469	\$550	\$366
<b>Dividends on Membership Shares</b>	<u>\$0</u>	<u>\$33</u>	<u>\$32</u>	<u>\$32</u>
<b>Income before income taxes</b>	\$140	\$436	\$518	\$334
<b>Provision for current income taxes</b>	<u>\$40</u>	<u>\$84</u>	<u>\$140</u>	<u>\$84</u>
<b>Net income</b>	<u>\$100</u>	<u>\$352</u>	<u>\$378</u>	<u>\$250</u>

## Ottawa Carleton Credit Union Limited

### The Credit Union

Ottawa Carleton Credit Union Limited ("Ottawa Carleton" or the "Credit Union") was incorporated as a result of the amalgamation, with effect from October 1<sup>st</sup>, 1999, of the former Ottawa Carleton Credit Union Limited (the "Former Ottawa Carleton") and the Ottawa Citizen Employees Credit Union Limited ("Ottawa Citizen Employees"), to serve various employee groups in the City of Ottawa and the Regional Municipality of Ottawa Carleton.

The Former Ottawa Carleton was itself formed by the amalgamation, with effect from October 15<sup>th</sup>, 1998, of the Ottawa Carleton Education Credit Union Limited ("Ottawa Carleton Education") and the Ottawa Municipal Employees Credit Union Limited ("Ottawa Carleton Municipal").

Both amalgamations were, however, accounted for using the "purchase method". When a corporation pursues an amalgamation, it may identify, using criteria set out in the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"), that there is clearly an "acquirer" and an "acquiree" in the transaction. In that situation, the CICA Handbook requires the Credit Union to account for the transaction as if the acquirer entity (in this case, Former Ottawa Carleton in the most recent amalgamation, and Ottawa Carleton Education in the 1998 amalgamation) had purchased the assets and assumed the liabilities and members' equity of the acquiree entity (here, Ottawa Citizen Employees in the most recent amalgamation, and Ottawa Municipal Employees in the 1998 amalgamation). The December 31<sup>st</sup>, 1999 financial statements of the Credit Union, therefore, reflect the addition of the assets, liabilities, Membership Shares, and undivided earnings of Ottawa Citizen to those of the Former Ottawa Carleton, and the results of the Credit Union since the amalgamation. Similarly, the September 30<sup>th</sup>, 1999 financial statements of the Former Ottawa Carleton reflect the addition of the assets, liabilities, Membership Shares, and undivided earnings of Ottawa Municipal Employees to those of Ottawa Carleton Education, and the results of the Former Ottawa Carleton after the amalgamation.

As of December 31<sup>st</sup>, 1999, total assets of the Credit Union were \$96,293,946, having increased from \$91,650,482 as the Former Ottawa Carleton at September 30<sup>th</sup>, 1999, \$72,057,655 as Ottawa Carleton Education at September 30<sup>th</sup>, 1998, and \$69,068,716 as Ottawa Carleton Education at September 30<sup>th</sup>, 1997. Ottawa Carleton's head office is located at 14 Chamberlain Avenue, Ottawa, Ontario K1S 1V9 (phone 613-238-8001, facsimile 613-238-2149).

Ottawa Carleton serves approximately 9,549 members through five offices, all located in Ottawa and Nepean, Ontario. The Credit Union provides a full range of retail credit and non-credit financial services and products, and a broad range of commercial non-credit financial services and products. The Credit Union's commercial credit activity is limited primarily to the granting of mortgages which would not qualify as Mortgage Loans because the mortgaged property is not occupied by its owner. See "Business of Ottawa Carleton Credit Union Limited" on pages 5 to 7.

The Credit Union owns the property in which its head office and its McLeod Street branch are located, and leases the premises from which it operates its other three offices. The Credit Union is attempting to sell the premises from which it operates its McLeod Street branch, and, once it does so, will lease replacement premises.

### Bond of Association and Membership

The legislation which governs credit unions and caisses populaires in Ontario specifies a bond of association which must exist among members. Typically, such bonds of association may be community-based, employer-

based, or otherwise based on a group of members with a form of common association. Ottawa Carleton's bond of association is now based on various employee groups in the City of Ottawa and the Regional Municipality of Ottawa Carleton, as fully described in paragraph 2.01 of its by-laws, and as summarized below:

- employees or elected officials of all educational institutions located within the limits of the Regional Municipality of Ottawa Carleton;
- employees or elected officials of the Regional Municipality of Ottawa Carleton;
- employees or elected officials of municipalities within the confines of the Regional Municipality of Ottawa Carleton;
- employees of the Ottawa Carleton Regional Transit Commission;
- employees of the Ottawa Citizen; and
- persons who live or are employed within the Regional Municipality of Ottawa Carleton who do not otherwise qualify for membership, as long as the aggregate number of such persons does not exceed 15% of the number of members of the Credit Union.

The by-laws also provide for the admission of up to 3% of the membership from outside the bond of association, the admission of the Credit Union's employees to membership, and the continuing membership of individuals who no longer qualify as members.

Membership in Ottawa Carleton is granted to applicants who are within the bond of association by enabling them to purchase and hold the required number of Membership Shares as specified in paragraph 2.03 of the by-laws of the Credit Union.

The by-laws currently require each member to own at least 5 Membership Shares with an aggregate issue price of \$25, and no more than 30 Membership Shares with an aggregate issue price of \$150. As the Credit Union pays dividends on its Membership Shares, the by-law requires each member to use those dividends to purchase additional Membership Shares until he or she reaches the maximum investment in Membership Shares. The Credit Union has been advised, however, by the Financial Services Commission of Ontario that its Membership Share requirement contravenes the Act, and will be considering amendments to section 2.03 of its bylaws at the next general meeting of the Credit Union. It is a possible result, should this offering be successful, that the Credit Union's Board may consider a reduction in the Credit Union's Membership Share requirement to 5 Membership Shares, perhaps over a period of four years. This reduction in Regulatory Capital is not included in any potential asset growth, Leverage Ratio, or Risk-Weighted Assets Ratio referred to in this offering statement.

### **Corporate Governance**

The Credit Union has developed a unique corporate governance structure to maintain the identities of the three Charter Groups, as that term is defined in the Credit Union's by-laws, forming the Credit Union: the Education Charter Group (consisting mainly of former members of Ottawa Carleton Education), the Municipal Charter Group (consisting mainly of former members of Ottawa Municipal Employees), and the Citizen Charter Group (consisting mainly of former members of Ottawa Citizen Employees). Each member of the Credit Union belongs to one, and only one, of these Charter Groups. The members of each Charter Group have the right to elect a Charter Council, as that term is defined in the Credit Union's by-laws, at the annual meeting of the members in that Charter Group. These Charter Councillors act as the representatives of the members of the Charter Group they represent at any general meeting of the Credit Union, and hold all of those members' voting rights at that meeting. Each Charter Councillor is entitled to one vote at a general meeting of the Credit Union.

The business of the Credit Union is directed and governed by its board of directors (the "Board"), a group of nine individuals, with each director being elected for a three-year term on a staggered basis to provide for

continuity of Board members. The directors are nominated by the three Charter Councils, the Charter Council serving the Education Charter Group having the right to nominate five directors, that serving the Municipal Charter Group having the right to nominate three directors, and that serving the Citizen Charter Group having the right to nominate one director. The nominations of the Charter Councils are acclaimed at a general meeting of the Credit Union. The duties, powers and standards of care and performance for boards of directors of credit unions are specified in the Act and accompanying Regulations.

The Board has established committees to assist in its effective functioning and to comply with the requirements of the Act. In particular, an audit committee, composed of at least three members of the Credit Union's Board, has been formed. Its mandate and duties are set out in the Regulations to the Act. The audit committee is responsible for, among other things, reviewing any financial statements which are presented to the members, either at an annual general meeting or within an offering statement, and making recommendations to the Board as to the approval of such financial statements.

The Credit Union's audit committee currently consists of four members who are directors of the Credit Union appointed to the audit committee by the Credit Union's Board, a fifth member who is elected by members of the Charter Council representing the Education Charter Group, and a sixth member who is elected by members of the Charter Council representing the Municipal Charter Group. This structure contravenes the requirement in the Act that the audit committee consist entirely of directors of the Credit Union appointed to the audit committee by the Credit Union's Board, or members of the Credit Union who are not directors and who are elected at large at a general meeting of the Credit Union. The Credit Union's Board is aware of this contravention, and intends to resolve it within the next few months.

The Credit Union, rather than having a credit committee to oversee the Credit Union's lending activities, has chosen to create the position of "official loans officer" and to delegate to that person authority to perform, and responsibility for, the lending function.

Other Board committees formed from time to time are *ad hoc*, informal and advisory in nature.

The Board has overall responsibility for and authority within the Credit Union, and directs the activities of management to whom it has delegated certain responsibilities according to Board policies. Ottawa Carleton has a management team consisting of the Chief Executive Officer, the Chief Financial Officer, the General Managers of the three Charter Groups, the Business Development and Marketing Manager, the Branch Manager of the Credit Union's Centrepointe branch, and the Operations Manager, who supervise 28 full-time and 7 part-time employees, the part-time employees equating to 4 full-time positions. For the names, municipality of residence, offices with the Credit Union and the present principal occupations of the directors and management of Ottawa Carleton as of the date of this Offering Statement, see "Directors and Management" on page 25 and 26.

## **The Regulatory Framework**

*The Credit Unions and Caisses Populaires Act, 1994* (See also "Capital Adequacy", on page 17)

Credit unions and caisses populaires in Ontario are governed by the *Credit Unions and Caisses Populaires Act, 1994*, with its accompanying Regulations and Guidelines (collectively referred to as the "Act"). The Superintendent of Financial Services (the "Superintendent") is charged with the responsibility of exercising certain powers and performing certain duties which are conferred or imposed by the Act. Among these duties is monitoring compliance with section 84 of the Act, which requires that adequate and appropriate forms of capital and liquidity be maintained by credit unions and caisses populaires. Credit unions and caisses populaires which do not meet the minimum capital levels required may be granted a variation of the

capital requirements by the Superintendent, subject to such terms and conditions as she may impose. The Credit Union was, as of all relevant times, in compliance with these minimum Regulatory Capital requirements.

Deposit Insurance Corporation of Ontario (See also "Regulatory Action", beginning on page 20)

The Deposit Insurance Corporation of Ontario ("DICO") is a provincial Crown corporation responsible for insuring deposits made by members in credit unions and caisses populaires, in accordance with the requirements of the Act and the Policy of Deposit Insurance. DICO is also able to impose certain requirements as a condition of continuing its deposit insurance coverage and, in the event that a credit union or caisse populaire fails to comply and is believed to represent a threat to the deposit insurance fund, has broader power to take corrective action, which may include ordering the Credit Union under Administration, or requesting that the Superintendent order the Credit Union under Supervision. The Credit Union's deposit insurance is in good standing, and DICO has imposed no conditions on the maintenance of the Credit Union's deposit insurance coverage.

### **Credit Union Central of Ontario**

Each province in Canada has one or more central credit unions which serve their member credit unions in the province. In Ontario, one of these bodies is Credit Union Central of Ontario Limited ("CUCO"), an incorporated association owned by its approximately 270 member credit unions. Ottawa Carleton is one of those member-owners. CUCO is not a retail banking institution; its key financial roles are management of the provincial liquidity reserve deposits of its member credit unions, and provision of central and investment banking services to its member credit unions.

As the central banker for its member credit unions, CUCO provides, through an arrangement with a third party, centralized cheque clearing, and itself provides lending services, to member credit unions. Lending services include overdraft facilities, demand loans, and term loans at fixed and variable rates.

CUCO also undertakes government relations, economic forecasting, and market research and planning.

As a member of Credit Union Central of Canada ("CUCC"), the national central credit union owned by the provincial central credit unions, CUCO and its member credit unions enjoy access to national government relations efforts, national marketing and research, and a voice in the World Council of Credit Unions, a world-wide association of national credit union associations of which CUCC is a member.

To retain membership in CUCO, the Credit Union must purchase shares in CUCO valued at 1.30% of its liabilities qualifying as Regulatory Capital (*i.e.*, Membership Shares, Class A Shares, and Class B Investment Shares) and members' deposits, maintain a liquidity reserve deposit at CUCO equal to 5% of its liabilities qualifying as Regulatory Capital and members' deposits, maintain a supplementary liquidity reserve deposit equal to 2% of its liabilities qualifying as Regulatory Capital and members' deposits, pay membership dues equal to \$3.50 per adult member annually, and, in CUCO's fiscal year ending December 31<sup>st</sup>, 1999, pay a technology assessment approximately equal to \$1.00 per adult member. Ottawa Carleton is in compliance with these requirements, and its membership in CUCO is in good standing.

# BUSINESS OF OTTAWA CARLETON CREDIT UNION LIMITED

## General Description of the Business

### Personal Financial Services

The 8 managerial staff, together with the 28 full-time and 7 part-time employees of the Credit Union, provide a broad range of personal financial services and products to members. Retail financial products for individuals include most types of deposit accounts, personal chequing services, registered retirement savings accounts, registered retirement income funds, registered education savings plans, and, through an agreement with Credential Asset Management Inc. (a full-service brokerage owned by the Canadian credit union system), mutual funds offered by both Ethical Funds Inc. (a mutual fund company where the funds offered are invested in corporations which meet certain ethical standards) and other third-party providers of mutual funds. The registered accounts are administered and held by the Credit Union, and the trustee is Co-operative Trust Company of Canada. The Credit Union also offers its members leave plans, which provide a vehicle for some members of the Credit Union's Education Charter Group to accumulate a portion of their salary to fund a "sabbatical" from their positions. Other products available to all members include safety deposit boxes, travellers' cheques, Canada Savings Bonds, Ontario Savings Bonds, and wealth management services.

Ottawa Carleton, as a member of CUCO, is linked to the Interac and PLUS System networks through CUCC, giving members access to their accounts at automated banking machines ("ABMs") world-wide.

In addition to the personal service offered by the offices of the Credit Union and the opportunity of utilizing any ABM linked to the Interac or Plus networks or any point-of-sale terminal linked to the Interac network, members have the option of completing transactions at the 4 ABMs owned and operated by the Credit Union, which are located at three of the Credit Union's offices (Chamberlain, Centrepointe, and Ottawa Citizen), and at Algonquin College. The Credit Union also offers its members the option of conducting routine inquiries, such as account balances and transaction reports, and transactions not involving the deposit or withdrawal of funds, such as bill payments and transfers of funds between accounts, by utilizing a touch-tone telephone. The Credit Union also offers its members the option of conducting transactions, similar to those which can be conducted using a telephone, using a personal computer and modem over the Internet.

The Credit Union is licensed by the Financial Services Commission of Ontario, a branch of the Ministry of Finance (Ontario), to offer personal loans and lines of credit for various purposes, residential mortgage loans, commercial loans, institutional loans, and unincorporated association loans. The Credit Union does not currently have as assets any institutional loans (loans to the federal or a provincial government or governmental agency, including a municipality or a school board) or loans to unincorporated associations (any loan to an association of persons or entities which is not incorporated, e.g., a church, a club, a trade union or a political party). The Board has approved, and management follows, lending policies in all areas to minimize the risk of loan losses.

### Personal Loans

Personal Loans to members comprise instalment loans, demand loans, and lines of credit. The Board has approved, and management follows, detailed lending policies which limit the risk to which the Credit Union is exposed.

Ottawa Carleton also offers a MasterCard credit card through an arrangement with Credit Union Electronic Transaction Services, an entity jointly owned by the Alberta and Saskatchewan credit union systems. Under this arrangement, Ottawa Carleton does not hold the accounts receivable owing from its credit card holders,

but earns a fee, which is not material to its financial performance, based on the total net purchases generated by its credit card holders as compensation for its efforts in marketing the card, and providing appropriate documentation to its members.

At December 31<sup>st</sup>, 1999, Ottawa Carleton had a Personal Loan portfolio, net of the applicable provision for losses, of \$14,634,302, representing 21.00% of total net loans outstanding. At September 30<sup>th</sup>, 1999, Former Ottawa Carleton had a Personal Loan portfolio, net of the applicable provision for losses, of \$13,941,121, representing 20.06% of total net loans outstanding.

### Residential Mortgages

Ottawa Carleton offers residential first and second Mortgage Loans to its members, and also offers the MeritLine home equity line of credit. The Credit Union is also licensed to offer bridge financing to its members; bridge financing is necessary to bridge the time period between the debtor's purchase of a home and the sale of the debtor's previous home where the purchase closes before the sale, and is usually secured by an irrevocable direction to the lawyer handling the sale to pay the bridge financing in full from the proceeds of the sale of the debtor's home. It grants Mortgage Loans to individuals according to conventional mortgage lending standards for residential property. Ottawa Carleton offers closed, fixed rate; closed, variable rate; open, fixed rate; and open, variable rate Mortgage Loans, written with terms of six months to five years. The Credit Union also offers its members high-ratio Mortgage Loans insured by Canada Mortgage and Housing Corporation ("CMHC"); 7.29% of its net residential and commercial mortgage portfolio as at December 31<sup>st</sup>, 1999, and 5.65% of the Former Ottawa Carleton's net residential and commercial mortgage portfolio as at September 30<sup>th</sup>, 1999, consisted of high-ratio mortgages insured by CMHC.

At December 31<sup>st</sup>, 1999, Mortgage Loans represented 77.04% of total net loans outstanding, and totalled \$53,681,278. At September 30<sup>th</sup>, 1999, Mortgage Loans represented 77.97% of Former Ottawa Carleton's total loans outstanding, and totalled \$54,186,106.

### Commercial Lending

Commercial lending by Ottawa Carleton is a minor portion of its business activities, and consists primarily of mortgages, which do not qualify as Mortgage Loans, on non-owner occupied residential properties located within its bond of association. These loans function similarly to their counterparts in "Personal Financial Services" above, but may expose the Credit Union to a greater risk of loss because of reliance on the rental income from the investment property to support the repayment of the loan.

Ottawa Carleton has also recently been involved with CUCO in one case, and with CUCO and another credit union in the other case, in two syndications of mortgages on commercial property. The Credit Union further intends to begin offering mortgages on commercial property without participating in a syndication of the loan. The Credit Union's management and Board expects, however, that it will be at least two or three years before the Credit Union develops sufficient experience in commercial lending to proceed beyond commercial mortgages into term loans and operating lines of credit for businesses, even though it has already developed lending policies in these areas.

Ottawa Carleton has developed and follows commercial lending policies to minimize its risk of loan delinquencies and losses.

As of December 31<sup>st</sup>, 1999, Commercial Loans amounted to 1.96% of the Credit Union's total loans outstanding, or \$1,362,832. As of September 30<sup>th</sup>, 1999, Commercial Loans amounted to 1.97% of Former Ottawa Carleton's total loans outstanding, or \$1,370,995.

## Administration

### Affiliation

By virtue of its membership in CUCO, the Credit Union has access to the services and products which are developed, either nationally or regionally, and made available to all affiliated credit unions in Canada. In addition, the Credit Union is a participant in the liquidity pool operated by CUCO, and is accordingly permitted to maintain a reduced level of liquid assets in comparison with credit unions which are not participants of a designated liquidity pool and which do not have specified lines of credit. To participate in the liquidity pool, the Credit Union is required to maintain a liquidity deposit at CUCO equal to 5% of its liabilities qualifying as Regulatory Capital and members' deposits; the Credit Union is also required, pursuant to CUCO's by-laws, to maintain a supplementary liquidity reserve deposit of 2% of its liabilities qualifying as Regulatory Capital and members' deposits. The Credit Union has met these requirements, and its participation in the liquidity pool is in good standing.

### Information Technology

The Credit Union has contracted with CDSL Canada Limited ("CDSL"), with effect from February 1<sup>st</sup>, 1999, for CDSL to act as the Credit Union's service bureau in providing it with data processing services. CDSL Canada Limited is owned by CGI Information Systems and Management Consultants Inc. ("CGI").

The Credit Union has also contracted with CDSL for the switching services essential to the operation of its ABMs and access to the Interac and Plus networks. The Credit Union has also licensed from CDSL Canada Limited its telephone banking system.

The Credit Union also offers Internet banking through a sublicense from CUCO of technology developed by Rapport Interactive Limited Partnership, and has contracted with Sonoma On-Line Services Inc., with effect from November 16<sup>th</sup>, 1999, for "help desk" services for its members to assist them with their use of this technology.

See pages 28 and 29 for further details of these agreements.

## **Business Strategy**

The Board and management of the Credit Union meet annually to review and revise the Credit Union's long term and short term strategies and plans. The Credit Union's current plans recognize that the Credit Union needs to continue to grow to enable it to meet the needs of its members in a complex and competitive environment.

The Credit Union, which is now a combination of three closed bond (or employer group) credit unions, has plans to be a "regional" closed bond credit union serving members in the greater Ottawa region. The Credit Union will attempt to increase its size and capabilities by attracting more business from existing members; attracting new members from its three membership groups (bonds); and by finding new membership groups to serve. These new membership groups may be created through amalgamations with other credit unions.

The Credit Union's objectives are to continue to provide excellent personal member service along with a competitively priced product line which can meet the needs of a large majority of the Credit Union's members.

The proceeds of this share offering will enable the credit union to support higher levels of asset growth without having to fund that growth with an equivalent growth in undivided earnings.

## CAPITAL STRUCTURE OF THE CREDIT UNION

Since its incorporation, the Credit Union's capital structure has consisted of an unlimited number of Membership Shares, Class A Special Shares ("Class A Shares"), and Class B Special Shares ("Class B Shares"), the Class A Shares and Class B Shares being issuable in series. The Board of the Credit Union subsequently exercised the authority given to it under the Credit Union's articles of incorporation to create Class B Special Shares, Series 1 ("Class B Investment Shares").

### Membership Shares

Membership Shares are issued at \$5 each, the price established by the Credit Union's Board, to persons who wish to become members of Ottawa Carleton. Pursuant to the by-laws of Ottawa Carleton, each member must hold at least 5 Membership Shares to retain membership, and may not hold more than 30 Membership Shares. As the Credit Union pays dividends on its Membership Shares, the recipient member is required, by the Credit Union's by-laws, to use these dividends to purchase additional Membership Shares of the Credit Union until he or she holds the maximum number of Membership Shares. The Credit Union has been advised, however, by the Financial Services Commission of Ontario that its Membership Share requirement does not conform with the Act, and will present changes to the relevant section of the Credit Union's by-laws at its next general meeting.

It is a possible result, should this offering be successful, that the Credit Union's Board may consider reducing the Credit Union's Membership Share requirement to 5 Membership Shares, perhaps over a period of four years. This reduction in Regulatory Capital is not included in any potential asset growth, Leverage Ratio, or Risk-Weighted Assets Ratio referred to in this offering statement.

Each member aged 16 years and over is entitled to one vote at all meetings of the Charter Group of which he or she is a member, and may therefore participate in the election of the Charter Group Council which will attend all general meetings of the Credit Union and exercise all voting rights at those meetings. Only general meetings of the Credit Union may take certain actions, such as electing the Credit Union's Board. Pursuant to the Act, the by-laws of Ottawa Carleton can be changed by Special Resolution at a general meeting of the Credit Union.

The holders of Membership Shares may receive dividends if, as and when declared by the Board of the Credit Union. Membership Shares are Non-cumulative as to dividends. Membership Shares rank junior to Class A Shares and Class B Shares for priority in the declaration and payment of dividends.

In the event of liquidation, dissolution or winding-up of the Credit Union or other distribution of assets or property of the Credit Union among its members and shareholders for the purpose of winding-up its affairs, the holders of the Membership Shares shall each be entitled to receive an amount representing equal portions of the assets or property of the Credit Union remaining after payment of all the Credit Union's debts and obligations, including redemption of all senior classes of shares as specified in the Credit Union's articles of incorporation, including Class A Shares and Class B Shares.

Membership Shares are redeemable at the amount paid thereon, plus any declared but unpaid dividends, when a member dies, withdraws or is expelled from membership. Membership Shares cannot be redeemed if the Credit Union is not meeting the requirements of section 84 of the Act (see also "Capital Adequacy" in the section on "Risk Factors", on page 17), except as permitted by a variation of capital adequacy requirements. The Credit Union complies with all Regulatory Capital requirements.

Membership Shares are not transferable between members.

The Credit Union, pursuant to the Act and its by-laws, has a lien on the Membership Shares of each member for any indebtedness of the member to the Credit Union.

As at December 31<sup>st</sup>, 1999, there were approximately 156,810 issued and outstanding Membership Shares in the capital structure of the Credit Union, with a total stated value of \$784,049. As at September 30<sup>th</sup>, 1999, there were approximately 150,509 issued and outstanding Membership Shares in the capital structure of the Former Ottawa Carleton, with a total stated value of \$752,547.

### **Class A Shares**

The Credit Union is authorized to issue to its members an unlimited number of Class A Shares.

Class A Shares may only be issued to persons who are members pursuant to the by-laws of the Credit Union.

The holders of Class A Shares are entitled, in preference to the holders of Membership Shares and any other class of shares ranking junior to the Class A Shares, but junior to the holders of the Class B Shares, to a preferential dividend.

The holders of Class A Shares are entitled, in priority to the holders of the Membership Shares and any other class of shares ranking junior to the Class A Shares, but junior to the holders of the Class B Shares, in the event of the liquidation, dissolution or winding up of the Credit Union, to receive the Redemption Amount for each Class A Share held, subject to the payment of all of the Credit Union's other debts and obligations, including its liabilities to depositors.

The holders of Class A Shares, in their capacity as holders of Class A Shares, are not entitled to notice of general meetings of the Credit Union, and are not entitled to vote at such meetings. In the event of a proposed dissolution, amalgamation, purchase of assets amounting to a Substantial Portion of the Credit Union's assets, or the sale, lease or transfer of a Substantial Portion of the assets of Ottawa Carleton, or of a proposed resolution which affects the rights attaching to the Class A Shares, the Credit Union shall hold a special meeting of the holders of Class A Shares. The holders of Class A Shares shall have one vote per Class A Share held at such meetings to consider such an event or resolution, which requires approval by Special Resolution of those present in person or, as permitted by the Credit Union's by-laws, by proxy, and voting. The Credit Union may also be required to hold a general meeting, and to hold meetings of the holders of some or all of its other classes of shares.

Class A Shares may not be transferred to any person who is not a member of the Credit Union. All such transfers require the approval, by majority vote, of the Credit Union's Board.

As of the date hereof, there were no issued and outstanding Class A Shares. The Credit Union has not yet created a series of Class A Shares specifying whether the dividends on the Class A Shares are cumulative or Non-cumulative, or what retraction and redemption rights are associated with those shares. Until it does so, the Credit Union will not issue Class A Shares.

### **Class B Shares**

The Credit Union is authorized to issue to its members an unlimited number of Class B Shares.

Class B Shares may only be issued to persons who are members pursuant to the by-laws of the Credit Union.

The holders of Class B Shares are entitled, in preference to the holders of the Class A Shares, the Membership Shares and any other class of shares ranking junior to the Class B Shares, to a preferential dividend.

The holders of Class B Shares are entitled, in priority to the holders of the Class A Shares, the Membership Shares, and any other class of shares ranking junior to the Class B Shares, in the event of the liquidation, dissolution or winding up of the Credit Union, to receive the Redemption Amount for each Class B Share held, subject to the payment of all of the Credit Union's other debts and obligations, including its liabilities to depositors.

The holders of Class B Shares, in their capacity as holders of Class B Shares, are not entitled to notice of general meetings of the Credit Union, and are not entitled to vote at such meetings. In the event of a proposed dissolution, amalgamation, purchase of assets amounting to a Substantial Portion of the Credit Union's assets, or the sale, lease or transfer of a Substantial Portion of the assets of Ottawa Carleton, or of a proposed resolution which affects the rights attaching to the Class B Shares, the Credit Union shall hold a special meeting of the holders of Class B Shares. The holders of Class B Shares shall have one vote per Class B Share held at such meetings to consider such an event or resolution, which requires approval by Special Resolution of those present in person or, as permitted by the Credit Union's by-laws, by proxy, and voting. The Credit Union may also be required to hold a general meeting, and to hold meetings of the holders of some or all of its other classes of shares.

Class B Shares may not be transferred to any person who is not a member of the Credit Union. All such transfers require the approval, by majority vote, of the Credit Union's Board.

As of the date hereof, there are no issued and outstanding Class B Shares.

#### Class B Shares, Series 1 ("Class B Investment Shares")

The Board has exercised its authority to issue the Class B Shares in series, and has created Class B Investment Shares. The terms and conditions of the Class B Investment Shares are discussed under "Description of Securities Being Offered", below.

As of the date hereof, there are no issued and outstanding Class B Investment Shares.

## **DESCRIPTION OF SECURITIES BEING OFFERED**

### **Class B Investment Shares**

#### Issue

Class B Investment Shares, issuable at \$1.00 each, will only be issued to members of Ottawa Carleton. If the purchaser is a natural person, he or she must be over the age of eighteen years. Purchasers may hold shares in trust for minor children.

#### Dividends

The holders of Class B Investment Shares are entitled, in preference to the Class A Shares, the Membership Shares, and any other classes of shares ranking junior to the Class B Investment Shares, to receive Non-cumulative dividends if, as and when declared by the Board. Dividends for the Class B Investment Shares are dependent upon, in part, the earnings and/or retained earnings of Ottawa Carleton, and on its ability to comply

with the capital adequacy and liquidity requirements of section 84 of the Act (see also "Capital Adequacy" in the section on "Risk Factors" on page 17). The payment of such dividends will be in such manner (including whether in the form of additional Class B Investment Shares, or in cash, or partly in additional Class B Investment Shares and partly in cash), and on such terms as may be determined from time to time by the Board. Class B Investment Shares allotted as part of a declared dividend will be issued in whole dollar amounts (rounded down to the nearest dollar); no fractional shares will be issued.

For a discussion of the Credit Union's dividend policy, see page 22.

### Canadian Federal Income Tax Aspects

The following commentary has been prepared by BDO Dunwoody LLP, Chartered Accountants, based solely on the information contained in this Offering Statement and their understanding of the meaning and intent of the relevant provisions of the *Income Tax Act*, including legislation that is pending at the date of this Offering Statement. This commentary summarizes the principal Canadian federal income tax consequences to individuals, other than trusts, who are resident in Canada for income tax purposes, who become holders of Class B Investment Shares by acquiring shares pursuant to this Offering Statement and who hold the interest as capital property. No advance income tax ruling has been requested or obtained from the Canada Customs and Revenue Agency ("CCRA") in connection with this Offering Statement, and there is therefore the risk that the CCRA may have a different view of the income tax consequences to holders from that described herein. **INVESTORS ARE CAUTIONED THAT THIS COMMENTARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO CONSTITUTE ADVICE TO ANY PARTICULAR INVESTOR. INVESTORS SHOULD SEEK INDEPENDENT ADVICE FROM THEIR OWN ADVISORS.**

Individual investors who acquire one or more Class B Investment Shares will be required to include in income the dividends paid on the shares, whether paid in cash or in the form of additional shares. This income is considered to have been received as interest income and not as dividend income.

Dividends paid in the form of additional Class B Investment Shares will be considered a stock dividend for tax purposes. On the basis that the Credit Union will add to the stated capital of the Special Shares an amount equal to the amount of the dividend, it will constitute interest income to the holders and be added to the adjusted cost base of the shares for income tax purposes.

Generally, any interest expense incurred on money borrowed to acquire shares is deductible for income tax purposes. However, this is subject to the overriding condition that the interest expense be reasonable in the circumstances. CCRA may disallow as a deduction that portion of the holder's borrowing costs in excess of the expected dividends stated in the dividend policy. The amount received on redemption of a share in excess of its paid-up capital for income tax purposes is interest income and is not included in the proceeds of disposition of the share.

The disposition of a share may give rise to a capital gain (or capital loss) to the extent that the proceeds received on the disposition exceed (or are exceeded by) the sum of the adjusted cost base of the share and any costs of its disposition. If certain criteria are met, a capital loss may be considered a business investment loss.

### Ottawa Carleton Investment Retirement Plan

The Co-operative Trust Company of Canada is the trustee of this retirement savings plan, which will accept Class B Investment Shares as contributions to a member's Registered Retirement Savings Plan ("RRSP") or Registered Retirement Income Fund ("RRIF").

### Ottawa Carleton Education Savings Plan

The Co-operative of Trust Company of Canada is the trustee of this education savings plan, which will accept Class B Investment Shares as contributions to a Registered Education Savings Plan ("RESP") organized by a member to benefit a named beneficiary or beneficiaries.

### Rights on Distributions of Capital

On liquidation or dissolution, holders of Class B Investment Shares will be paid the Redemption Amount for each such share held, in priority to the Class A Shares, the Membership Shares, and any other class of shares ranking junior to the Class B Investment Shares, after provision for payment of all the Credit Union's other debts and obligations, including its liabilities to depositors. Holders of Class B Investment Shares shall not thereafter be entitled to participate in the distribution of the Credit Union's assets then remaining.

### Redemption Provisions and Restrictions

Class B Investment Shares are not redeemable for five years following their issuance, except when a shareholder dies or is expelled from membership in the Credit Union. Thereafter, holders of Class B Investment Shares may, at any time, make a request to the Board, in writing, to redeem, at the Redemption Amount, their Class B Investment Shares held. Such request must specify the date on which the shareholder wants their Class B Investment Shares redeemed.

In no case shall total redemptions approved for holders of Class B Investment Shares at the holder's request in any fiscal year exceed an amount equal to 10% of the total Class B Investment Shares outstanding at the end of the previous fiscal year. Redemption requests will be considered on a first come, first served basis as evidenced by the time and date to be marked on each request when received by the Credit Union. Redemption requests not fulfilled during one fiscal year shall be deemed to have been presented to the Credit Union during the first month of the following fiscal year, and shall be the first requests considered by the Board in the subsequent fiscal year.

The Credit Union has the option of redeeming, at the Redemption Amount, all or any portion of the Class B Investment Shares then outstanding, subject to restrictions in the Act, after giving at least 21 days notice of its intent to redeem, at any time after five years from the date of issuance. If the Credit Union redeems only a portion of the Class B Investment Shares then outstanding, the Credit Union must redeem such Class B Investment Shares *pro rata* from all holders of such shares at that time, and must, at its expense, issue certificates to each holder of Class B Investment Shares representing the number of Class B Investment Shares such holder continues to hold.

**Purchasers of Class B Investment Shares who are intending to include such shares in an RRSP, RRIF or RESP contract should carefully review the above redemption provisions and restrictions before proceeding.**

## Voting Rights

The Class B Investment Shares are Non-voting for the purposes of general meetings of the Credit Union. In the event of a proposed dissolution, amalgamation, purchase of assets amounting to a Substantial Portion of the Credit Union's assets, or the sale, lease or transfer of a Substantial Portion of the assets of Ottawa Carleton, the Credit Union shall hold a special meeting of the holders of Class B Investment Shares. The holders of Class B Investment Shares shall have one vote per Class B Investment Share held at such meetings to consider such an event or resolution, which requires approval by Special Resolution of those present in person or, as permitted by the Credit Union's by-laws, by proxy, and voting. Approval at a general meeting of the Credit Union, and at meetings of the holders of all other classes of shares in its capital structure, will also be required.

## Modification

Modification of the rights and obligations attached to Class B Investment Shares, or of the rights and obligations attached to any other class or series of share which detrimentally affects the rights and obligations attached to the Class B Investment Shares, will require the approval by Special Resolution of those voting at a special or annual general meeting of the Credit Union, and the approval of the holders of Class B Investment Shares. The approval of some or all of the other classes of shares may also be required if their rights and obligations are affected. Such shareholder approval will be expressed by Special Resolution of the holders of the relevant class of shares present, in person or by proxy as permitted by the Credit Union's by-laws, at a separate meeting of such shareholders, with each shareholder having one vote per share held.

## Restrictions on Transfer

Class B Investment Shares may not be transferred except to another member of Ottawa Carleton, or to a person prescribed in the Act and its accompanying regulations. Transfers will be subject to the approval of the Board. Transfer requests will be in writing, using a form approved by the Board. Transfer requests will be tendered to the head office of the Credit Union, together with the certificate or certificates representing the shares to be transferred. The Board has determined that Class B Investment Shares will be transferred to other members at a price equal to the current Redemption Amount. Any invitation to the public to subscribe for Class B Investment Shares of the Credit Union is prohibited.

No member, through transfers of Class B Investment Shares from other members, will be allowed to hold more Class B Investment Shares than the member would otherwise have been able to subscribe for in this initial offering (125,000 or the Maximum Permissible Holding, whichever is lesser). **There is no market for the Class B Investment Shares issued by the Credit Union.**

## Articles of Amendment

Prospective purchasers of Class B Investment Shares may obtain, on request at the head office of the Credit Union, a copy of the Amalgamation Agreement between the Former Ottawa Carleton and Ottawa Citizen Employees, and the resolution of the Credit Union's Board, which define the Credit Union's capital structure.

## SUMMARY OF SHARE TERMS AND CONDITIONS

The following represents a summary of the rights of each class of shares regarding dividends, return of capital on dissolution, redeemability at the holder's initiative, redeemability at the Credit Union's initiative, and voting:

	<b>Class B Investment Shares</b>	<b>Class A Shares</b>	<b>Membership Shares</b>
<b>Right</b>			
Dividends	The holders of Class B Investment Shares are entitled, in preference to the Class A Shares, the Membership Shares, and any other class of shares ranking junior to the Class B Investment Shares, to receive Non-cumulative cash or share dividends if, as, and when declared by the Board. See page 22 for a discussion of the Credit Union's dividend policy regarding Class B Investment Shares.	The holders of Class A Shares are entitled, in preference to the Membership Shares and any other class of shares ranking junior to the Class A Shares, to receive dividends if, as, and when declared by the Board.	The holders of the Membership Shares are entitled, after payment of dividends to holders of Class B Investment Shares and Class A Shares of the Credit Union, to receive Non-cumulative cash or share dividends if, as and when declared by the Board.
Return of capital on dissolution	The holders of Class B Investment Shares are entitled, in preference to the Class A Shares, the Membership Shares, and any other class of shares ranking junior to the Class B Investment Shares, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of the Credit Union's other debts and obligations.	The holders of Class A Shares are entitled, in preference to the Membership Shares and any other class of shares ranking junior to the Class A Shares, to receive the Redemption Amount for each share held upon the liquidation, dissolution, or winding up of the Credit Union, after payment of all of the Credit Union's other debts and obligations, including its obligations to the holders of the Class B Investment Shares.	The holders of the Membership Shares are entitled on dissolution of the Credit Union to receive an amount representing equal portions of the assets or property of the Credit Union remaining after payment of all the Credit Union's debts and obligations, including redemption of the Class B Investment Shares and the Class A Shares.

	<b>Class B Investment Shares</b>	<b>Class A Shares</b>	<b>Membership Shares</b>
<b>Right</b>			
Redeemability at the holder's initiative	Class B Investment Shares are not redeemable at the holder's initiative for five years following their issuance, except when a holder of the shares dies or is expelled from membership in the Credit Union. Thereafter, holders may at any time request the Board to redeem, at the Redemption Amount, their Class B Investment Shares held. In no case shall the total number of Class B Investment Shares redeemed in any fiscal year exceed 10% of the issued and outstanding Class B Investment Shares reported on the Credit Union's audited financial statements for the preceding fiscal year.	The redeemability of Class A Shares at the shareholder's option has not yet been determined. The Board will determine this right when creating a series of Class A Shares to issue.	Upon death or withdrawal or expulsion from membership in the Credit Union, the holder must require the Credit Union to redeem his or her Membership Shares held at the amount paid up for each such Membership Share, plus any declared but unpaid dividends thereon.
Redeemability at the Credit Union's initiative	The Credit Union may at its initiative redeem, at the Redemption Amount, all or any portion of the Class B Investment Shares outstanding at any time five years or more after the shares are issued.	The redeemability of Class A Shares at the Credit Union's option has not yet been determined. The Board will determine this right when creating a series of Class A Shares to issue.	Membership Shares are not redeemable at the Credit Union's initiative.
Voting	Class B Investment Shares do not carry any voting rights, except when the Act requires that these shares carry voting rights.	Class A Shares do not carry any voting rights, except when the Act requires that these shares carry voting rights.	Each member of the Credit Union over the age of 16 years has one vote on any matter considered by a meeting of the Charter Group of which he or she is a member, regardless of the number of Membership Shares held.

## CAPITALIZATION TABLE FOR REGULATORY PURPOSES

The capitalization of the Former Ottawa Carleton as at September 30<sup>th</sup>, 1999, of the Credit Union as at December 31<sup>st</sup>, 1999, and of the Credit Union as at December 31<sup>st</sup>, 1999 after giving effect to the full issuance of the Class B Investment Shares is set out in the following table:

	As at <u>September</u> <u>30<sup>th</sup>, 1999</u> (audited)	As at <u>December</u> <u>31<sup>st</sup>, 1999</u> (unaudited)	As at <u>December 31<sup>st</sup></u> <u>1999</u> , after giving effect to the full issuance of the Class B Investment Shares (unaudited)
<b>Share Capital</b>			
Membership Shares	\$752,547	\$784,049	\$784,049
Class B Investment Shares	\$0	\$0	\$2,500,000 (2,500,000 shares)
<b>Undivided Earnings</b>	<u>\$4,063,537</u>	<u>\$4,233,880</u>	<u>\$4,233,880</u>
<b>Total</b>	<u>\$4,816,084</u>	<u>\$5,017,929</u>	<u>\$7,517,929</u>

This will not conform to the presentation of these items for financial statement purposes. The Canadian Institute of Chartered Accountants has issued section 3860 of the CICA Handbook, which establishes standards for presentation and disclosure of financial instruments. As part of its pronouncements, it has stated that where an organization has an obligation to redeem shares for a fixed amount under conditions certain to occur, such as a member's resignation or death, these obligations should be disclosed as financial liabilities and not as equity interests. Dividends on these shares are treated as interest expense, and deducted from pre-tax income.

### RISK FACTORS

The following risk factors should be considered in making a decision to purchase Class B Investment Shares.

#### Transfer and Redemption Restrictions

**There is no market through which the Class B Investment Shares may be sold.** Further, it is not expected that any market will develop. These securities may only be transferred to another member of the Credit Union or to a person prescribed by the Act and accompanying regulations.

The Act prohibits redemption of shares if the Board of the Credit Union has reasonable grounds to believe that the Credit Union is, or the payment would cause it to be, in contravention of prescribed liquidity and capital adequacy tests for credit unions. Redemptions of Class B Investment Shares are not permitted during the first five years after issuance of the Class B Investment Shares, except in cases of death or expulsion, and thereafter are limited in any fiscal year to 10% of the Class B Investment Shares outstanding at the end of the previous fiscal year. Consequently, holders of Class B Investment Shares may not be able to sell or redeem their securities when they wish to do so.

**Members who intend to hold Class B Investment Shares within an RRSP, RRIF or RESP contract should carefully review this risk factor before proceeding.**

## Capital Adequacy

The Act requires Ottawa Carleton to maintain a Risk-Weighted Assets Ratio and a Leverage Ratio equal to or greater than a percentage stated in the regulations passed pursuant to the Act. Since its creation, Ottawa Carleton has been required to maintain a Risk-Weighted Assets Ratio of 8.00% and a Leverage Ratio of 5.00%.

As at both December 31<sup>st</sup> and September 30<sup>th</sup>, 1999, the Credit Union and the Former Ottawa Carleton were in compliance with these requirements, as indicated in the following table:

	<u>Risk Weighted Asset Ratio Attained</u>	<u>Leverage Ratio Attained</u>
December 31 <sup>st</sup> , 1999	12.65%	5.21%
September 30 <sup>th</sup> , 1999	12.86%	5.33%

If this offering is fully subscribed, assuming the levels of assets and equity stated in the December 31<sup>st</sup>, 1999 unaudited financial statements, the Credit Union will enjoy a Leverage Ratio of 7.81%; the Credit Union could therefore grow by \$54,064,634 from its level of total assets as of December 31<sup>st</sup>, 1999 and remain in compliance with Regulatory Capital requirements. If this offering is only minimally subscribed on the same conditions, the Credit Union will enjoy a Leverage Ratio of 6.77% and could grow by \$34,064,634 from its level of total assets as of December 31<sup>st</sup>, 1999 and remain in compliance with Regulatory Capital requirements.

## Payment of Dividends

This is the initial offering of Class B Investment Shares and, accordingly, there is no dividend record for the Class B Investment Shares. The payment of dividends to the holders of Class B Investment Shares is dependent on the ability of Ottawa Carleton to meet the liquidity and capital adequacy requirements of the Act, the availability of earnings, and the exercise by the Board of its discretion as to whether or not to declare a dividend, the rate at which the dividend is to be declared, and the proportions of additional shares and cash for payment of such dividend.

The Board has stated a dividend policy for Class B Investment Shares as outlined on page 22 hereof; this policy may be changed at any time at the discretion of the Board, and therefore dividends paid may not be as required by the policy outlined herein.

## Credit Risk

The major activity of Ottawa Carleton is the lending of money to members and, as a result, there exists the risk of loss from uncollectible loans. The lending policies of the Credit Union, the care and attention of staff and management in applying such policies to loan applications and loans granted, and the security taken in connection with such applications, will affect the future profitability of the Credit Union and impact on its ability to pay dividends and redeem Class B Investment Shares when the members wish it to do so. The loan portfolio of the Former Ottawa Carleton at September 30<sup>th</sup>, 1999, and of the Credit Union as at December 31<sup>st</sup>, 1999, segregated into those classes of loans which are defined in the regulations passed pursuant to the Act, and the activity in the allowance for doubtful loans are detailed below.

September 30<sup>th</sup>, 1999December 31<sup>st</sup>, 1999

## Loans by Classification

Personal Loans	\$14,402,874	\$15,140,584
Mortgage Loans	\$54,186,106	\$53,681,278
Commercial Loans	<u>\$1,370,995</u>	<u>\$1,362,832</u>
	\$69,959,975	\$70,184,694
Less allowance for loan losses	<u>(\$461,753)</u>	<u>(\$506,282)</u>
	<u>\$69,498,222</u>	<u>\$69,678,412</u>

## CONTINUITY OF ALLOWANCE FOR LOAN LOSSES

<u>September 30<sup>th</sup>, 1999</u>	<u>PERSONAL</u>	<u>MORTGAGE</u>	<u>TOTAL</u>
Opening balance	\$312,750	\$0	\$312,750
<u>Subtract:</u> loans written off	<u>\$113,128</u>	<u>\$0</u>	<u>\$113,128</u>
	\$199,622	\$0	\$199,622
<u>Add:</u>			
Provision from Ottawa Municipal Employees	\$84,936	\$0	\$84,936
Recoveries on loans previously written off	\$14,600	\$0	\$14,600
Provision charged to operations	<u>\$162,595</u>	<u>\$0</u>	<u>\$162,595</u>
Closing balance	<u>\$461,753</u>	<u>\$0</u>	<u>\$461,753</u>

<u>December 31<sup>st</sup>, 1999</u>	<u>PERSONAL</u>	<u>MORTGAGE</u>	<u>TOTAL</u>
Opening balance	\$461,753	\$0	\$461,753
<u>Subtract:</u> loans written off	<u>\$1,060</u>	<u>\$0</u>	<u>\$1,060</u>
	\$460,693	\$0	\$460,693
<u>Add:</u>			
Provision from Ottawa Citizen Employees	\$5,589	\$0	\$5,589
Recoveries on loans previously written off	\$6,715	\$0	\$6,715
Provision charged to operations	<u>\$33,285</u>	<u>\$0</u>	<u>\$33,285</u>
Closing balance	<u>\$506,282</u>	<u>\$0</u>	<u>\$506,282</u>

Impaired loans are loans which, in the opinion of management, cast doubt as to the ultimate collectibility of some portion or all of the principal or interest. Accrual of interest on loans where interest is due and has not been collected for a period of 90 days is automatically discontinued, unless management determines that there is no reasonable doubt as to the ultimate collectibility of principal and interest.

Ottawa Carleton has an established policy of providing, on a monthly basis, an allowance to cover potential loan losses. Each month the allowance is reviewed and, if potential loan losses are identified, an allowance is specifically allocated to each impaired loan. The following table shows the impaired loan exposure of the Former Ottawa Carleton as at September 30<sup>th</sup>, 1999, and of the Credit Union as at December 31<sup>st</sup>, 1999, net of the related allowance for loan losses:

	September 30 <sup>th</sup> , 1999	December 31 <sup>st</sup> , 1999
<b><u>Impaired loans</u></b>		
Personal Loans	\$259,995	\$353,798
Mortgage Loans	\$648,783	\$588,775
Commercial Loans	<u>\$0</u>	<u>\$0</u>
Total impaired loans	\$908,778	\$942,573
Less allowance for loan losses	<u>(\$461,753)</u>	<u>(\$506,282)</u>
Net impaired loans	<u>\$447,025</u>	<u>\$436,291</u>
Impaired Personal Loans as a percentage of gross Personal Loans	1.80%	2.34%
Impaired Mortgage Loans as a percentage of gross Mortgage Loans	1.20%	1.10%
Impaired Commercial Loans as a percentage of gross Commercial Loans	0.00%	0.00%
Total impaired loans as a percentage of total gross loans outstanding	1.30%	1.34%

Net loans written off by the Former Ottawa Carleton during the fiscal year ended September 30<sup>th</sup>, 1999 and by the Credit Union during the three months ended December 31<sup>st</sup>, 1999 were \$113,128 and \$1,060, respectively. The provision for losses on loans for the same periods were \$162,595 and \$33,285, respectively. The allowance for loan losses is 0.66% of total loans outstanding at September 30<sup>th</sup>, 1999, and 0.72% of total loans outstanding as of December 31<sup>st</sup>, 1999.

#### **Risk of Loss on Investments**

The Credit Union is also exposed to risk in respect of its investments. The investment policy requires that the Credit Union's investments be wisely and prudently invested in investment vehicles which meet the requirements of the Act, and consider safety of principal, liquidity, income, and the Credit Union's asset and liability matching requirements. Funds surplus to the membership requirements of CUCO, and to statutory liquidity requirements, will be invested in eligible investments. Eligible investments include deposit instruments issued by CUCO, federal and provincial government guaranteed investment instruments, and corporate bonds, notes and debentures. To be acceptable, government and corporate debt instruments must have sufficient liquidity to ensure that the investment can be sold at any time, and be issued by an entity with at least an R1 middle rating. No investment in a single corporation and its related subsidiaries will exceed \$500,000.

The Credit Union's policy also permits its investment in hedging instruments such as interest rate "swaps" and forward rate agreements, for interest rate risk management purposes. The Credit Union is not currently involved in any hedges, except those pertaining to its index-linked term deposit product discussed at pages 29 and 30.

As of December 31<sup>st</sup>, 1999, outside of the required Membership Shares and liquidity reserve requirement, and term deposits, with CUCO, the Credit Union had investments in Province of Ontario Savings Bonds, and in Government of Canada Treasury Bills.

### **Liquidity Risk**

Liquidity risk is the risk that a financial institution will have to sell assets at a loss to meet cash demands. As a member of a qualifying liquidity pool, the Credit Union must maintain an amount at least equal to 8% of its members' deposits and borrowings in prescribed classes of assets pursuant to Regulations to the Act. Board policy requires that the Credit Union maintain liquidity between 10% and 13% of deposits and other debt liabilities. In cases where liquidity is expected to fall below 8%, management must advise the Board and indicate what actions are being taken to remedy the low levels of liquidity. The Former Ottawa Carleton had maintained an average liquidity position of 20.87% in the fiscal year ended September 30<sup>th</sup>, 1999, and the Credit Union has maintained an average liquidity position of 20.28% in the three months ended December 31<sup>st</sup>, 1999.

### **Interest Rate Risk**

Interest rate risk arises from a mismatch between rates and maturities of members' deposit liabilities and the yields and maturities of members' loans and other investments of the Credit Union. It is the policy of the Credit Union to keep exposure to interest rate fluctuations within limits set by its Board policies. Regulations require that the Credit Union expose no more of its net income than a sum equal to 15 basis points of its total assets to a reasonably-anticipated change in interest rates. Its Board policy, which in management's opinion is more strict than required by the Act, is to comply with the regulations passed pursuant to the Act and to define "reasonably anticipated" to be a 2% change in interest rates, but also to expose not more than its annual forecasted net income, before tax and extraordinary items, to a reasonably-anticipated fluctuation in interest rates. The Credit Union also evaluates a weighted average dispersion of Net Interest Income using a number of probability-weighted scenarios as established by CUCO, to determine if more than 15 basis points of the Credit Union's total assets, or 25% of budgeted net income before tax and extraordinary items, or 5% of the Credit Union's Regulatory Capital, are at risk. To achieve this matched position, the Credit Union uses the services of CUCO, and evaluates its interest risk quarterly. The Credit Union can respond to market interest rate changes with immediate pricing adjustments to deposit and loan products, if necessary to correct a potential mismatch, although such adjustments, because they only affect new transactions, may not succeed in eliminating the mismatch. As at December 31<sup>st</sup>, 1999, the Credit Union's matching analysis indicated that the Credit Union was in compliance with both its Board policies and also with regulatory requirements, exposing net income equivalent to 15 basis points of its total assets to a 1% change in interest rates.

In the event that the Credit Union were to become mismatched to an extent which exceeds the regulatory requirements described above, future profitability could become eroded, with a resulting negative impact on the ability of the Credit Union to pay dividends or redeem shares.

### **Regulatory Action**

Under the Act, the Deposit Insurance Corporation of Ontario, as stabilization authority for the credit unions and caisses populaires in Ontario, can ask the Superintendent of Financial Services to place a credit union or caisse

populaire under Supervision, and may, itself, place a credit union or caisse populaire under Administration should it believe that there is a potential for the credit union or caisse populaire to encounter financial or management problems which could affect its financial well-being or which could tend to increase the risk of claims by the credit union or caisse populaire against the deposit insurance fund.

The Credit Union at this time does not anticipate any regulatory action being taken against it by either the Superintendent of Financial Services or DICO.

### **Reliance on Key Management**

The success of the Credit Union's business strategy, as with that of any other organization, is dependent on the ability of the Credit Union to attract and retain key management personnel. The inability to retain such persons, or replace them with individuals of equal competence, could affect the Credit Union's financial performance. The Credit Union has in place with its Chief Executive Officer a written employment agreement covering his services which requires that he provide the Credit Union with ninety days' notice of his intention to terminate his employment relationship with the Credit Union. The Credit Union does not, however, have similar agreements in place with its other managers.

### **Geographic/Industry Risk**

The Credit Union, since its membership is employed mainly in the provincial public sector, is particularly vulnerable to expenditure reductions undertaken by the Ontario government. Expenditure reductions could result in loss of employment of the Credit Union's members, which could increase the Credit Union's administrative expenses by increasing the required provision for loan losses, decrease the Credit Union's liquidity by causing a reduction in its members' deposits, and decrease the Credit Union's total assets by decreasing members' demand for loans and mortgages.

The Ottawa region generally, however, is currently climbing out of a recession. The region's economy is diversifying, and the private sector, particularly in high technology and specifically telecommunications software, and the health and life sciences, is growing. The region is well-served by venture capital firms, and half of all patents issued in Ontario originate in the Ottawa region. The federal government share of the local employment sector, by 2001, is projected to decrease to 14.5% from 32.3% as recently as 1976, and the advanced technology sector is projected to increase over the same period from 3% to 14%.

### **Competitive Risk**

The financial services industry continues to be extremely competitive. The major banks have expanded their traditional core banking businesses into other financial services. As a result, the sheer size and increasing scope of their diversified operations represent a challenge to credit unions. The success of credit unions largely depends on their ability to differentiate themselves from large banks and trust companies, and on their ability to be proactive in providing products and services to meet their members' needs while ensuring that they earn sufficient profits to continue to grow and prosper.

Only one office of the Credit Union, on St. Laurent Boulevard, does not compete with a nearby branch of any of the five major Canadian banks, and one office of the Credit Union, on Lisgar Street, competes with nearby branches of four of the five major Canadian banks, as well as the National Bank.

## DIVIDEND RECORD AND POLICY

The Credit Union, Former Ottawa Carleton, and Ottawa Carleton Education have not, prior to this issue of Class B Investment Shares, issued shares other than Membership Shares upon which dividends could be paid. Former Ottawa Carleton and Ottawa Carleton Education have paid dividends regarding their last five fiscal years of operation, as detailed in the following table:

<u>Issued and Outstanding Membership Shares</u>	<u>Fiscal Year Ending</u>	<u>Dividend Paid</u>
\$752,547	September 30 <sup>th</sup> , 1999	\$33,400
\$443,170	September 30 <sup>th</sup> , 1998	\$32,525
\$422,150	September 30 <sup>th</sup> , 1997	\$32,365
\$405,805	September 30 <sup>th</sup> , 1996	\$32,125
\$390,625	September 30 <sup>th</sup> , 1995	\$31,055

For a discussion of the priority of the various classes of shares in the payment of dividends, and the restrictions placed on the Board in the declaration of dividends, see pages 9, 10, 11, and 14.

The dividend policy of the Credit Union's Board for Class B Investment Shares shall be to pay a dividend or dividends for every year in which there are sufficient profits to do so while still fulfilling all other Regulatory Capital and operational requirements. The dividend rate shall be established by the Board, in its sole and absolute discretion, based on financial and other considerations prevailing at the time of the declarations. The Board shall consider whether or not a dividend shall be declared, and at what rate and in which manner, at least annually following each fiscal year end and before each annual general meeting of members.

Although there can be no guarantee that a dividend will be paid for each year, it is the policy of the Board that an appropriate dividend will be declared and paid for each year, provided that the Credit Union is in compliance with Section 84 of the Act. The Board has defined an appropriate dividend rate on the issue price of the share to be a rate which exceeds by 1.0% the average of the posted rates offered by the Credit Union on its five-year term deposits on each day during the fiscal year regarding which the dividend is to be paid, weighted for the number of days such rate was offered during the fiscal year. The dividend, in the fiscal year Class B Investment Shares are first issued, shall be pro-rated for the number of days the Class B Investment Shares were issued and outstanding in that fiscal year. It is the intention of the Credit Union's Board to declare these dividends in the form of additional Class B Investment Shares.

The dividend policy followed by the Credit Union is at the discretion of its Board, and is subject to change.

Following consideration and payment of a dividend on the Class B Investment Shares, the Board may decide to pay a dividend on shares ranking junior to the Class B Investment Shares, including the Class A Shares and Membership Shares.

## USE OF PROCEEDS FROM SALE OF SECURITIES

Shares will be issued for cash only.

The principal use of the net proceeds, and purpose of this offering, will be, first, to enable the Credit Union to continue to satisfy the legal requirements to maintain a minimum level of Regulatory Capital, as set out in section 84 of the Act, and, also, to comply with sound business practices, particularly given changes that the

Credit Union is required to make in its Membership Share requirement; see pages 2 and 8 for details. Based on a Leverage Ratio of 5%, assuming the offering is fully subscribed, and that in all other respects the Credit Union's assets and Regulatory Capital are as stated on its December 31<sup>st</sup>, 1999 unaudited financial statements, the Credit Union's Regulatory Capital could support additional growth of \$54,064,634 from its total assets as at December 31<sup>st</sup>, 1999. On the same conditions except that the offer is minimally subscribed, the Credit Union's Regulatory Capital could support additional growth of \$34,064,634 from its total assets as at December 31<sup>st</sup>, 1999. The cash generated from the issuance of the securities, to the extent it represents new cash to the Credit Union rather than being a transfer from existing accounts, will be used for general business purposes, being primarily the lending of money to members and the investment of surplus funds in high quality investments; the Credit Union does not, however, anticipate significant inflows of new funds as a result of this offering.

The growth possible for the Credit Union if this offering is fully or minimally subscribed is calculated as follows. If this offering is fully subscribed, the Credit Union will have Regulatory Capital of \$7,517,929. Dividing this amount of Regulatory Capital by the required Leverage Ratio of 5% reveals that the Credit Union would then have sufficient Regulatory Capital to support assets of \$150,358,580. Subtracting from this level of assets the Credit Union's total assets as reported on its unaudited December 31<sup>st</sup>, 1999 balance sheet indicates that the Credit Union could grow by \$54,064,634, if this offering is fully subscribed. The Credit Union's Leverage Ratio in this case will be 7.81%.

If this offering is only minimally subscribed, however, the Credit Union will enjoy Regulatory Capital of \$6,517,929. Dividing this level of Regulatory Capital by the required Leverage Ratio of 5% reveals that the Credit Union would then have sufficient Regulatory Capital to support assets of \$130,358,580. Subtracting from this level of assets the Credit Union's total assets as reported on its unaudited December 31<sup>st</sup>, 1999 balance sheet indicates that the Credit Union could grow by \$34,064,634 if this offering is minimally subscribed. The Credit Union's Leverage Ratio in this case would be 6.77%.

## **PLAN OF DISTRIBUTION**

1. The price to members for each Class B Investment Share will be \$1.00.
2. There will be no discounts or commissions paid to anyone for the sale of these securities.
3. One hundred percent (100%) of the proceeds of the sale of these securities will go to the Credit Union, which will then be responsible for the payment of the costs associated with this Offering Statement.

Subscriptions for the Class B Investment Shares shall be accepted as of the date hereof, and for a period of six months after the date hereof; or until a date on which subscriptions have been received for the maximum 2,500,000 Class B Investment Shares; or until a date, when the Credit Union has received subscriptions for at least the minimum 1,500,000 Class B Investment Shares but has not received subscriptions for the maximum 2,500,000 Class B Investment Shares, before six months have passed from the date hereof, on which the Board, in its sole and absolute discretion, shall determine to close the offering; whichever shall occur first (the "Closing Date"). Subscriptions will be accepted on a first come, first served basis, and subscription forms will be marked with the time and date accepted. The Credit Union will closely monitor subscriptions being received as total subscriptions approach the maximum. Potential purchasers making subscription requests at that time may not be allowed to subscribe for the full number or amount of shares they desire, or their subscription request may be refused. This offering may not be over-subscribed, and subscriptions will not be pro-rated.

**Funds to be used by a subscriber to pay for shares subscribed must be already on deposit at the Credit Union or capable of being deposited at the Credit Union at the time of the subscription. The subscriber will authorize the Credit Union to place a hold on such accounts in an amount equal to the issue price**

of the number of shares for which the member subscribes. If the offering is completed, such hold will be released, and the authorized amount will be used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the decision to buy is reversed by the subscriber (as described on the cover of this Offering Statement), the hold will be released immediately thereafter.

No member may purchase more Class B Investment Shares than the Maximum Permissible Holding. If a member subscribes for more than the Maximum Permissible Holding, the Credit Union will honour the subscription for the Maximum Permissible Holding. To the extent of the over-subscription, and for the purposes of the hold arrangements outlined above, the Credit Union will treat the member as having properly withdrawn the over-subscription on the Closing Date, regardless of when the member received the offering statement, and will release the funds held (together with applicable interest) to the member, as required above.

The above-noted terms and conditions regarding holds on deposit accounts are detailed on the Credit Union's subscription form for Class B Investment Shares and on separate agreements, to be signed by subscribers, authorizing holds on deposit accounts. Copies of the Subscription Form and the forms for authorization of a hold on funds in deposit accounts are printed in this Offering Statement on pages 60 and 61.

The Credit Union will issue, within sixty days of the Closing Date, the Class B Investment Shares to those who have subscribed for them.

If fully subscribed, the gross proceeds to be derived by the Credit Union from the sale of the Class B Investment Shares shall be \$2,500,000. The costs of issuing these securities are not expected to exceed \$40,000, and these costs will be amortized over a five-year period. The estimated maximum net proceeds of this offering of securities are \$2,460,000.

If, after six months from the date of this Offering Statement, subscriptions received for the Class B Investment Shares amount to less than \$1,500,000 in the aggregate and this offering for Class B Investment Shares has not been renewed with the approval of the Superintendent of Financial Services, the offering will be cancelled and withdrawn, and all funds "frozen" to support subscriptions will be returned to the respective members within 30 days thereof, with applicable interest, without shares being issued.

The Class B Investment Shares will not be sold by underwriters or other dealers in securities. The minimum subscription per member shall be \$1,000 for 1,000 Class B Investment Shares. The maximum subscription per member shall be \$125,000 for 125,000 Class B Investment Shares; however, no member may purchase more than the Maximum Permissible Holding. Shares will only be issued subject to the full price of such securities being paid.

## **MARKET FOR THE SECURITIES**

**There is no market for the Class B Investment Shares. These securities may only be transferred to another member of the Credit Union or to a person prescribed by the Act and accompanying Regulations.**

## **SENIOR DEBT (RANKING AHEAD OF CLASS B INVESTMENT SHARES)**

Ottawa Carleton has arranged lines of credit and overdraft facilities, totalling CDN\$4,500,000 and US\$1,000,000, at CUCO. The purpose of these facilities is to cover fluctuations in daily clearing volume on the chequing accounts of the members of the Credit Union.

The Credit Union has also arranged with CUCO a CDN\$1,500,000 term loan, and a CDN\$1,500,000 credit facility to secure its performance of its obligations under the index-linked term deposit hedges discussed at pages 29 and 30.

As security for these credit facilities, the Credit Union has given CUCO promissory notes, a general assignment of its book debts, and a general security agreement covering all of its assets.

During the fiscal year ended September 30<sup>th</sup>, 1999, the balance owing on the Canadian dollar line of credit with CUCO fluctuated from a high of \$2,694,254 to a low of \$0, and the U.S. dollar line of credit with CUCO was not utilized. During the three months ended December 31<sup>st</sup>, 1999, the balance owing on the Canadian dollar line of credit with CUCO fluctuated from a high of \$127,650 to a low of \$0, and the U.S. dollar line of credit with CUCO was not utilized during the period.

### **AUDITORS, REGISTRAR AND TRANSFER AGENT**

The auditor of Ottawa Carleton Credit Union Limited is BDO Dunwoody LLP, Chartered Accountants and Consultants, The BDO Centre, 301 Moodie Drive, Suite 400, Nepean, Ontario K2H 9C4 (telephone 613-820-8010, facsimile 613-820-0465).

The registrars and transfer agents for the Class B Investment Shares are designated staff of Ottawa Carleton.

### **DIRECTORS AND MANAGEMENT**

#### **Board of Directors**

The following table sets forth the Board of Ottawa Carleton:

<b>Name/Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Position/Office</b>
Wayne E. Bishop Nepean, Ontario.	Comptroller of Finance, Ottawa Carleton Catholic School Board	Treasurer, Member of Audit Committee
Louise Boyer, A.C.I Ottawa, Ontario.	Credit Manager, Ottawa Citizen	Corporate Secretary, Member of Audit Committee
Bruce R. Corbett, B.A., M.Ed. Lansdowne, Ontario.	Retired	Chairperson
Ric Dagenais Manotick, Ontario.	Customer Account Manager, Regional Municipality of Ottawa Carleton, Finance, Water Division	Director, Member of Audit Committee
Leonard Marks Gloucester, Ontario.	Retired	Director
Judi Marshall Merrickville, Ontario.	Human Resource Officer – Staff Development, Ottawa Carleton District School Board	Director

<b>Name/Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Position/Office</b>
Leslie Ricci, B.A., B.Ed. Osgoode, Ontario.	Department Head, Business Department, St. Paul High School	Director
Steve H. Richardson Gloucester, Ontario.	Superintendent of Human Resources, Ottawa Carleton Catholic School Board	Director, Member of Audit Committee
Robert Vye Gloucester, Ontario.	Driver, OC Transpo	Vice-Chairperson

The Chair of the audit committee, who is not also a member of the Board, is Michael Clarke, B.Comm., M.B.A., C.A., of Stittsville, Ontario. His principal occupation is Superintendent of Finance, Ottawa Carleton District School Board. The final member of the audit committee, who is not also a member of the Board, is Miriam Casey. Ms Casey is retired, and resides in Manotick, Ontario.

### **Management**

The following table sets forth the management of Ottawa Carleton:

<b>Name/Municipality of Residence</b>	<b>Position/Title</b>
John Ebsary, B.Comm., C.A., C.F.A. Ottawa, Ontario.	Chief Executive Officer
Michael Dimitriou, B.A., C.A., C.F.P. Ottawa, Ontario.	Chief Financial Officer
Jim Coolen, B.A., C.F.P. Kanata, Ontario.	General Manager – Education
Terry Cole Nepean, Ontario.	General Manager – Municipal
Andrew McNamara Ottawa, Ontario.	General Manager – Ottawa Citizen
Heather Eagle, B.A. Ottawa, Ontario.	Business Development and Marketing Manager
Gilles Riendeau, C.F.P. Ottawa, Ontario.	Branch Manager
Karen Gowdy Nepean, Ontario.	Operations Manager

All management of the Credit Union have been with the Credit Union, Former Ottawa Carleton, Ottawa Carleton Education, Ottawa Municipal Employees or Ottawa Citizen Employees for at least five years except Mr. Dimitriou, Ms Eagle, and Ms Gowdy. Mr. Dimitriou was previously employed by the Credit Union's former auditing firm Ernst & Young LLP as an audit manager for the past three years. Prior to that, Mr. Dimitriou was employed by the accounting firm of Bouris, Wilson, Scott, and Proctor as a senior staff accountant. Ms Eagle has been a self-employed marketing and communications consultant since 1996, and prior to that was a Senior Associate Manager at the Prudential Insurance Company of America. Ms Gowdy was previously employed by Defence Community Financial Services Credit Union Limited as a branch manager.

## LAWSUITS AND OTHER MATERIAL OR REGULATORY ACTIONS

Other than actions to recover delinquent loans where Ottawa Carleton is the plaintiff, the Credit Union is not aware of any material pending or contemplated legal proceedings to which the Credit Union is a party.

The Credit Union is not aware of any regulatory actions contemplated against it by either the Superintendent of Financial Services or DICO.

## MATERIAL INTERESTS OF DIRECTORS, OFFICERS AND EMPLOYEES

All loans to the directors, officers and employees and persons related to them are made in the normal course of business, using standard credit granting criteria, and are made at market rates, except as disclosed below.

The Credit Union offers Personal Loans, lines of credit, and Mortgage Loans to its employees at discounted rates.

Employees of the Credit Union are entitled to obtain Personal Loans at a discount of 3% from the applicable rate charged to the Credit Union's members. Employees are not eligible for these discounted loans for investment purposes, and the amount outstanding in such loans is limited to \$3,000 during the employee's first year of employment with the Credit Union unless the Credit Union's Board approves an exception. As at December 31<sup>st</sup>, 1999, the Credit Union had \$25,069.91 outstanding in such discounted Personal Loans to its employees.

Employees of the Credit Union are also entitled to obtain authorized overdraft protection and personal lines of credit, other than home equity lines of credit, at a discount of 3% from the applicable rate charged to the Credit Union's members. As at December 31<sup>st</sup>, 1999, the Credit Union had \$254,300 authorized in such discounted lines of credit to its employees, of which \$157,415.26 was utilized.

After they have completed their first year of employment with the Credit Union, employees of the Credit Union are also entitled to Mortgage Loans and home equity lines of credit pertaining to their principal residence at a discount of 1% from the applicable rate charged to the Credit Union's members. The Credit Union will pay, on one occasion only, the legal fees to transfer the Mortgage Loan to the Credit Union. As at December 31<sup>st</sup>, 1999, the Credit Union had \$347,276.45 outstanding in such discounted Mortgage Loans to its employees.

New employees of the Credit Union are also eligible for interest-free loans of up to \$500 for terms not exceeding one year for the purchase of appropriate business attire. The Credit Union had no such loans outstanding as at December 31<sup>st</sup>, 1999.

Employees of the Credit Union are also eligible for interest-free loans of up to \$5,000 for terms not exceeding three years for the purchase of computer hardware and software. Management of the Credit Union believes the balance outstanding in such loans as at December 31<sup>st</sup>, 1999 was not significant and did not exceed \$5,000, and has therefore included these loans with the discounted Personal Loans discussed above.

The aggregate value of loans in all categories to "restricted parties", as that phrase is defined in the Act, as of December 31<sup>st</sup>, 1999, amounted to \$962,218. No allowance was required in respect of these loans.

As members of Ottawa Carleton, directors, officers and employees of the Credit Union each hold Membership Shares in the number required to maintain membership in Ottawa Carleton. Accordingly, each director, officer and employee may subscribe for the Class B Investment Shares should any of such persons wish to do so.

## MATERIAL CONTRACTS

The following material contracts have been entered into by Ottawa Carleton during the last three years, or remain in effect as of the date hereof.

### **Lease with The Regional Municipality of Ottawa-Carleton, dated October 20<sup>th</sup>, 1999**

This lease provides the Credit Union with the use of the premises from which it will operate its new office on Lisgar Street. The premises, of approximately 512 square feet, includes an area of approximately 77 square feet which may in the future be utilized as a corridor to the neighbouring courthouse; if this occurs, the Regional Municipality may occupy that area without compensation to the Credit Union, although the rent paid by the Credit Union for its premises will decrease commensurately. The term of the lease is from December 1<sup>st</sup>, 1999, through and including November 30<sup>th</sup>, 2004, with an option to renew for a further five year term upon six months' written notice to the landlord. The landlord is required to advise the Credit Union if comparable premises become available for lease elsewhere in the building, so that the Credit Union has the option of relocating at the Credit Union's expense, and to permit the Credit Union to participate in any competitive process to replace the Royal Bank ATM currently located on the main floor of the building should it be removed. Rent for the premises is \$5,120 annually, not inclusive of goods and services tax, which may increase annually as a result of inflation or of an increase in the realty taxes on the building in which the premises is located. The Credit Union is also responsible for costs estimated at \$3,600 for the relocation of items currently stored in the premises to other locations. The Credit Union may not assign the lease or sublet the premises without the landlord's written consent.

### **Lease with 994106 Ontario Inc., dated July 21<sup>st</sup>, 1994**

This lease provides the Credit Union with the use of the premises from which it operates its Centrepointe branch. Annual rent for the premises is currently \$30,750, not inclusive of goods and services tax. The Credit Union is also required to pay as additional rent realty taxes, utilities, services supplied to the premises (including insurance), and the cost of repairs to and replacements, maintenance and management of the premises. The lease is for a ten-year term, from October 1<sup>st</sup>, 1994 through and including September 30<sup>th</sup>, 2004. The Credit Union cannot assign the lease or sublet the premises without the prior written consent of the landlord. The Credit Union is permitted to, and has, installed an ATM on the premises, and has the exclusive right both to operate a financial institution in the shopping centre, and to install an ATM in the shopping centre. The Credit Union has an option to renew the lease for two additional terms of five years each by 180 days' written notice to the landlord. The Credit Union also has a first right of refusal of adjacent space when it becomes available for lease.

### **Service Bureau Services Attachment with CDSL Canada Limited, made as of February 10<sup>th</sup>, 1998**

This agreement provides the Credit Union with on-line transaction processing services, network services, software maintenance and support, and extended disaster recovery services, enabling it to process its members' in-branch, on-line, and network transactions on their accounts. The term of the agreement is from the date on which the Credit Union completed its conversion to its current data system, which was February 1<sup>st</sup>, 1999, to December 31<sup>st</sup>, 2003, and may only be renewed by mutual agreement of the parties. CDSL Canada Limited invoices the Credit Union monthly for the agreed-upon charges for services provided. CDSL may replace the software at any time on one year's prior written notice to the Credit Union, and may increase the fees charged to the Credit Union as a result; if, however, the increase exceeds 10% of the per-member charge previously levied, the Credit Union may refuse to accept the charge and terminate the agreement upon six months' notice to CDSL without penalty.

**Electronic Switching Services (Relay) Attachment with CDSL Canada Limited, made December 11<sup>th</sup>, 1998**

This agreement with CDSL Canada Limited provides the Credit Union, at a per-transaction charge invoiced monthly, with the switching services necessary to operate its own ABMs and to permit its members to access the Interac and PLUS networks of ABMs and point-of-sale terminals linked to the Interac network. The agreement expires on December 31<sup>st</sup>, 2003, and may only be renewed by mutual written agreement of the parties. CDSL Canada Limited has the right at any time to replace the switch software, and to increase its charges to the Credit Union to reflect the value of the replacement software; if the Credit Union chooses not to accept the increased fees, it may terminate the agreement on twelve months' notice without penalty. If the Credit Union chooses to terminate the agreement without cause, substantial termination penalties will likely result.

**Interactive Voice Response (IVR) System License and Support Agreement with CDSL Canada Limited, dated July 16<sup>th</sup>, 1999**

This agreement provides the Credit Union with a restricted, non-exclusive, non-transferable, non-assignable license to use, but not to sublicense, CDSL Canada Limited's "telephone banking" system. This agreement expires on December 31<sup>st</sup>, 2003, and may only be renewed by mutual agreement of both parties. The Credit Union paid to CDSL a one-time system license fee, and pays a monthly ongoing system support fee.

**MemberDirect System Sublicense Agreement with CUCO**

In return for the payment of a license fee and ongoing support fees, this sublicense provides the Credit Union with the non-exclusive, non-transferable right to use its Internet banking system. The agreement continues until terminated in accordance with its terms.

**Help Desk Agreement with Sonoma Online Services Inc., dated November 16<sup>th</sup>, 1999**

This agreement provides the Credit Union's members, at a fee per active member per month, with technical support in their use of the Credit Union's Internet banking system. The agreement continues for a term of one year, but may be terminated by either party upon two months' written notice.

**Index-Linked Term Deposit User Agreement with CUCO; Various Hedge Agreements with CUCO**

These agreements permit the Credit Union to offer the index-linked term deposit product, on which the principal is insured and guaranteed by DICO but on which returns are based on either various market indices or "baskets" of a number of individual stocks, to its members, and to use some registered trademarks in its promotion. The Credit Union is also required to enter into hedging agreements with CUCO to eliminate the risk it undertakes in selling these products, and to pledge a portion of its lines of credit to secure its obligations under those hedge agreements. The Credit Union has now entered into 52 hedge agreements for the amount of \$5,123,252 in the aggregate, ranging between \$1,202 and \$545,116 and maturing between April 2000 and November 2004. These agreements oblige the Credit Union to make annual simple interest payments to CUCO, calculated on the notional principal amounts at rates ranging between 3.75% and 8.06%. In return, CUCO is obliged to pay to the Credit Union, on the maturity date, the return which the Credit Union owes the holders of the index-linked term deposits. These hedge agreements therefore eliminate the risk to the Credit Union in offering this product, and enable the Credit Union to treat amounts invested in index-linked term deposits as if the funds had been invested in standard term deposits bearing simple interest at the rates the Credit Union is obliged to pay CUCO under the hedge agreements.

## Credit Facilities with CUCO

This agreement, which is renewed annually, provides the Credit Union with a CDN\$4,500,000, and a US\$1,000,000 line of credit. The purpose of these lines of credit is to cover fluctuations in daily clearing volume on the chequing accounts of the members of the Credit Union.

The Credit Union also has a CDN\$1,500,000 term loan which has not been utilized as of the date hereof, and a further CDN\$1,500,000 facility to secure its performance of its obligations under the index-linked term deposit hedges discussed above.

These facilities will next be reviewed in June, 2000.

## OPERATING RESULTS AND VARIATIONS

### Three Months Ended December 31<sup>st</sup>, 1999 over Fiscal Year Ended September 30<sup>th</sup>, 1999

Total assets grew by 5.07% (20.10% annualized). A portion of this growth was due to the amalgamation of the Former Ottawa Carleton with Ottawa Citizen Employees, which had effect from October 1<sup>st</sup>, 1999. The amalgamation was accounted for using the purchase method (see discussion of the amalgamation of Ottawa Carleton Education and Ottawa Municipal Employees under "Fiscal Year Ended September 30<sup>th</sup>, 1999 over Fiscal Year Ended September 30<sup>th</sup>, 1998", beginning on page 31). This amalgamation resulted in an increase in the Credit Union's assets of \$1,879,110, or 2.05% of the total assets of the Former Ottawa Carleton at September 30<sup>th</sup>, 1999. Cash and cash equivalents increased by 13.84% (54.90% annualized), and investments increased by 49.48% (196.33% annualized), reflecting the Credit Union's increased liquidity; personal loans increased by 4.97% (19.89% annualized), while mortgages and commercial loans actually decreased by 0.92% (3.66% annualized). The shift away from mortgages and commercial loans to personal loans may reflect greater credit risk in the Credit Union's lending portfolio. Total liabilities increased by 5.12% (20.25% annualized). A portion of this growth was also due to the amalgamation noted above. This amalgamation resulted in an increase in the Credit Union's liabilities of \$1,768,046, or 2.05% of the total liabilities of the Former Ottawa Carleton at September 30<sup>th</sup>, 1999. Balances outstanding in members' savings accounts (12.34% actual increase, 48.94% annualized) and RRSPs (3.46% actual increase, 13.71% annualized) increased significantly. Membership Shares increased by 4.19% (16.61% annualized). A portion of this growth was also due to the amalgamation noted above. This amalgamation resulted in an increase in the Credit Union's Membership Shares of \$40,673, or 5.40% of the Membership Shares outstanding in the Former Ottawa Carleton at September 30<sup>th</sup>, 1999. Undivided earnings increased by 4.19% (16.63% annualized). A portion of this growth was also due to the amalgamation noted above. This amalgamation resulted in an increase in the Credit Union's undivided earnings of \$70,391, or 1.73% of the undivided earnings of the Former Ottawa Carleton at September 30<sup>th</sup>, 1999.

The Credit Union benefited from a substantial increase in its investment income (11.94% on an annualized basis), but experienced an increase (1.88% on an annualized basis) in its interest expense. Its Net Interest Income, however, increased by 5.13% on an annualized basis, to 333 basis points on an annualized basis of average assets held in the three month period, from 363 basis points of a significantly smaller level of average assets held in the fiscal year. Other income, however, decreased significantly (8.80% annualized), to 58 basis points on an annualized basis of average assets held during the three-month period, from 73 basis points of average assets held during the fiscal year. Administrative expenses, however, increased only 0.37% on an annualized basis during the three-month period, which permitted operating income to increase by 18.80% on an annualized basis during the period; operating income increased to 59 basis points on an annualized basis of average assets held during the three-month period, from 57 basis points of average assets held during the fiscal year.

Please note, however, that the Credit Union's business is seasonal, and focused in the fall and winter. Annualized information, particularly regarding the Credit Union's balance sheet, may therefore not present an accurate indication of the Credit Union's anticipated growth and performance during the fiscal year ending September 30<sup>th</sup>, 2000.

### **Fiscal Year Ended September 30<sup>th</sup>, 1999 over Fiscal Year Ended September 30<sup>th</sup>, 1998**

Total assets grew by 27.19%. A significant portion of this growth was due to the amalgamation of Ottawa Carleton Education and Ottawa Municipal Employees to form the Former Ottawa Carleton with effect from October 15<sup>th</sup>, 1998. This amalgamation was accounted for using the purchase method because Ottawa Carleton Education was deemed for accounting purposes to be the purchaser; the September 30<sup>th</sup>, 1999 statements of the Former Ottawa Carleton, therefore, reflect both the amalgamation and also the results of the Former Ottawa Carleton after the amalgamation. This amalgamation resulted in an increase of \$12,157,548 in total assets, or 16.87% of the total assets of Ottawa Carleton Education as at September 30<sup>th</sup>, 1998. Cash and cash equivalents increased by 120.58%, reflecting the former Ottawa Carleton's increased liquidity. Total liabilities grew by 27.19%. A significant portion of this growth is also due to the amalgamation discussed above. This amalgamation resulted in an increase of \$11,499,098 in total liabilities, or 16.84% of the total liabilities of Ottawa Carleton Education as at September 30<sup>th</sup>, 1998. Balances outstanding in members' savings accounts grew by 58.57%, while balances outstanding in personal chequing accounts increased by 81.30% and those in RRIFs increased by 30.78%; all of these changes would tend to increase the Former Ottawa Carleton's interest expense. Membership Shares increased by 69.81%, largely due to the increase in Membership Shares on the amalgamation noted above of \$291,430, or 65.76% of the Membership Shares of Ottawa Carleton Education as at September 30<sup>th</sup>, 1998. Undivided earnings increased by 21.50%, largely due to the increase in undivided earnings on the amalgamation noted above of \$367,020, or 10.97% of the undivided earnings of Ottawa Carleton Education as at September 30<sup>th</sup>, 1998.

The Former Ottawa Carleton's interest revenue grew by 12.61%, but declined as a percentage of average assets held during the fiscal year, to 631 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 650 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. The Former Ottawa Carleton's investment income, however, increased by 291.55%, and increased as a percentage of average assets held during the year, to 99 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 29 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. This reflects the decreased importance of the former Ottawa Carleton's lending function as compared to its investment function, given its increased liquidity. The Former Ottawa Carleton's interest expense increased by 28.31%, and increased as a percentage of average assets held during the year, to 367 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 331 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. The Former Ottawa Carleton's other income increased by 44.78%, to 73 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 59 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. Administrative expenses increased by 33.88%, largely due to a 53.68% increase in salaries and benefits, a 102.02% increase in clearing charges and armoured services, a 341.66% increase in credit and collection costs, and a \$22,698 loss on disposal of capital assets. These expenses increased as a percentage of average assets held in the fiscal year, to 380 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 329 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. The Credit Union's operating income, due to increased interest and non-interest costs, decreased by 14.75% in the year, to 57 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 78 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. Since dividends on Membership Shares remained relatively constant in the year, income before income taxes decreased by 15.84% in the fiscal year, to 53 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 73 basis points in the fiscal year ended September 30<sup>th</sup>, 1998. After a provision for current income taxes, net income decreased by only 6.78%, and decreased as a percentage of average assets held in the fiscal year, to 43 basis points in the fiscal year ended September 30<sup>th</sup>, 1999, from 53 basis points in the fiscal year ended September 30<sup>th</sup>, 1998.

Growth and performance in the fiscal year ended September 30<sup>th</sup>, 1999 were significantly affected by the amalgamation of Ottawa Carleton Education and Ottawa Municipal Employees.

#### **Fiscal Year Ended September 30<sup>th</sup>, 1998 over Fiscal Year Ended September 30<sup>th</sup>, 1997**

Total assets of Ottawa Carleton Education increased by 4.33%. Cash and cash equivalents increased by 420.65%; although investments decreased by 8.32%, the significant increase in cash and cash equivalents reflects the increase in Ottawa Carleton Education's liquidity. Ottawa Carleton Education's loan portfolio declined by 3.24%, almost entirely due to a 12.66% decrease in Ottawa Carleton Education's personal lending to its members. Ottawa Carleton Education's liabilities to non-members decreased by 12.39%, due to the retirement of a balance outstanding on Ottawa Carleton Education's lines of credit with CUCO as at September 30<sup>th</sup>, 1997. Members' deposits at Ottawa Carleton Education increased by 4.14%, due mainly to a 40.21% increase in deposits in personal chequing accounts, and a 22.86% increase in deposits in registered retirement income funds. Membership Shares increased by 4.98%. Undivided earnings increased by 12.72%, reflecting Ottawa Carleton Education's profitability in the year.

Ottawa Carleton Education's revenue from loans and mortgages to members increased by 5.96%, to 650 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1998, from 628 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997. Ottawa Carleton Education's investment income, however, declined by 27.62%, to 29 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1998 from 41 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1997. Ottawa Carleton Education's interest expense also declined by 8.99% in the fiscal year, to 331 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1998, from 373 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1997. Ottawa Carleton Education's other income increased by 2.41% in the year, but increased only slightly as a percentage of average assets held during the year (remaining constant at 59 basis points in both the fiscal year ended September 30<sup>th</sup>, 1998 and also in the fiscal year ended September 30<sup>th</sup>, 1997). Administrative expenses increased by 11.30%, to 329 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1998, from 302 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1997. This is mainly due to an increase in the provision for losses on loans (132.88%), clearing charges and armoured services (28.83%), advertising and promotion (40.10%), board of directors (48.06%), education and travel (57.24%), and annual and other meetings (49.26%). Due to the increase in loan and mortgage interest revenue and other income, and the decline in interest expense, in spite of the decrease in Ottawa Carleton Education's investment income and the increase in its administrative expenses, Ottawa Carleton Education's operating income increased by 50.32%, to 78 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1998, from 53 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997. Dividends on Membership Shares remained relatively constant in the year, so Ottawa Carleton Education's income before income taxes similarly increased by 55.15%, to 73 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1998, from 48 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1997. After a provision for current taxes, Ottawa Carleton Education's net income for the year increased by 50.98%, to 53 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1998, from 36 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997.

#### **Fiscal Year Ended September 30<sup>th</sup>, 1997 over Fiscal Year Ended September 30<sup>th</sup>, 1996**

Ottawa Carleton Education's total assets grew by only 0.23% in the year. A decline in Ottawa Carleton Education's liquidity (a 75.79% decline in cash and cash equivalents) was almost perfectly offset by an increase in Ottawa Carleton Education's demand for Mortgage Loans (Ottawa Carleton Education's mortgage and commercial loan portfolio increased by 11.21%). Ottawa Carleton Education's liabilities to non-members increased significantly (by 151.11%) due both to an outstanding balance on Ottawa Carleton Education's line of credit with CUCO as at September 30<sup>th</sup>, 1997, and a 103.97% increase in the balance

outstanding in accounts payable and accrued charges. Members' deposits in Ottawa Carleton Education declined by 0.41%; increased deposits in savings accounts (12.48%) and RRIFs (7.43%) were offset by lower balances in term deposits (5.02%), RRSPs (2.61%), and leave plans (20.19%). Membership Shares increased by 4.03%. Ottawa Carleton Education's undivided earnings increased by 9.20% as a result of its profitability.

Mortgage and loan interest revenue decreased by 9.80%, mainly due to a decrease in interest received on Personal Loans (17.41%); interest received on Personal Loans declined to 211 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997, from 256 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1996. Ottawa Carleton Education's investment income also declined, by 53.15% to 41 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1997, from 89 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1996. Ottawa Carleton Education's interest expense, however, also declined significantly, by 21.68% to 373 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1997, from 478 basis points of average assets held in the fiscal year ended September 30<sup>th</sup>, 1996. Other income also increased significantly (by 20.04%), to 59 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997, from 49 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1996. Ottawa Carleton Education's administrative expenses were relatively constant in the year (decreased by only 0.53%). The decline in Ottawa Carleton Education's loan and mortgage interest revenue, and in its investment income, were almost offset by the decline in Ottawa Carleton Education's interest expense and the increase in Ottawa Carleton Education's other income; Ottawa Carleton Education's operating income declined by only 1.17%, to 53 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997, from 54 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1996. Dividends on Membership Shares remained relatively constant in the year, so Ottawa Carleton Education's income before income taxes similarly declined by 1.36%, to 48 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1997, from 49 basis points of average assets held during the fiscal year ended September 30<sup>th</sup>, 1996. After a provision for current income taxes, Ottawa Carleton Education's net income increased by 1.58%, remaining constant at 36 basis points of average assets held during both the fiscal year ended September 30<sup>th</sup>, 1997, and also the fiscal year ended September 30<sup>th</sup>, 1996.

The following table presents financial performance indicators for the Credit Union for the three months ended December 31<sup>st</sup>, 1999 and the fiscal years ended September 30<sup>th</sup>, 1999, 1998, and 1997. These figures are based on the audited financial statements for the fiscal years, except for the figures for the three months ended December 31<sup>st</sup>, 1999, which are based on unaudited information. (1 basis point (1 bp) equals 0.01% of average assets during the period.)

<b><u>Financial Performance Indicators</u></b>	<b>Three Months Ended December 31<sup>st</sup>, 1999</b>	<b>Year Ended September 30<sup>th</sup>, 1999</b>	<b>Year Ended September 30<sup>th</sup>, 1998</b>	<b>Year Ended September 30<sup>th</sup>, 1997</b>
<b><u>Profitability</u></b>				
Total Assets (\$ Thousands)	\$96,294	\$91,650	\$72,058	\$69,069
Pre-tax Profit (\$ Thousands)	\$557*	\$436	\$518	\$334
Pre-tax Profit (bp)	59*	53	73	48
Net Interest Margin (bp)	333*	363	348	297
Non-Interest Income (bp)	58*	73	59	59
Total Operating Expenses (bp)	332*	380	329	302
Dividends on Membership Shares (bp)	0	4	5	5
<b><u>Compliance with Capital Requirements</u></b>				
Risk-Weighted Assets Ratio	12.65%	12.86%	12.45%	9.85%
Risk-Weighted Assets Ratio Requirement	8.00%	8.00%	8.00%	7.50%
Leverage Ratio	5.21%	5.33%	5.24%	5.02%
Leverage Ratio Requirement	5.00%	5.00%	5.00%	4.60%
<b><u>Loan Composition</u></b>				
Total Loans Outstanding (\$ Thousands)	\$70,184	\$69,960	\$59,183	\$61,072
Personal Loans (% of total)	21.58%	20.59%	24.24%	26.67%
Mortgage Loans (% of total)	76.48%	77.45%	73.39%	71.94%
Commercial Loans (% of total)	1.94%	1.96%	2.37%	1.39%

<b><u>Financial Performance Indicators</u></b>	<b>Three Months Ended December 31<sup>st</sup>, 1999</b>	<b>Year Ended September 30<sup>th</sup>, 1999</b>	<b>Year Ended September 30<sup>th</sup>, 1998</b>	<b>Year Ended September 30<sup>th</sup>, 1997</b>
<b><u>Loan Quality</u></b>				
Allowance for Loan Losses (% of Total Loans)	0.72%	0.66%	0.53%	0.38%
Provision for Losses on Loans (bp)	14*	20	24	10
<b><u>Other Factors</u></b>				
Total Members' Deposits (\$ Thousands)	\$90,465	\$86,071	\$67,540	\$64,852
Average Liquidity During the Period (% of total deposits and borrowings)	20.28%	20.87%	18.33%	12.76%
Asset Growth (% change for Period)	20.10%*	27.19%	4.33%	0.23%
Total Regulatory Capital (\$ Thousands)	\$5,018	\$4,816	\$3,788	\$3,389
Regulatory Capital Growth (% change for Period)	16.63%*	27.15%	11.76%	8.53%

\* Annualized.

Further analysis is presented in the financial statements which are included in this Offering Statement, beginning on page 36.

#### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

Management has developed and maintains the necessary systems of internal controls to provide reasonable assurance that transactions are authorized and assets are safeguarded. The controls are also designed to provide reasonable assurance that relevant and reliable financial information is produced. The Board meets monthly to oversee management's performance, and to discharge its other legal obligations set out in the *Credit Unions and Caisses Populaires Act, 1994*. The Board has appointed an audit committee, comprised of at least three members of the Board, which reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors.

**INTERIM FINANCIAL STATEMENTS**

**THE OTTAWA CARLETON  
CREDIT UNION LIMITED**

**December 31, 1999  
(Unaudited)**



BDO Dunwoody LLP  
Chartered Accountants  
and Consultants

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## REVIEW ENGAGEMENT REPORT

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To the Directors of  
**The Ottawa Carleton Credit Union Limited**

We have reviewed the interim balance sheet of **The Ottawa Carleton Credit Union Limited**, as at December 31, 1999 and the interim statements of income and undivided earnings and cash flows for the three months then ended. Our review was made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Credit Union.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

A handwritten signature in cursive script that reads "BDO Dunwoody LLP".

BDO Dunwoody LLP

Chartered Accountants  
Ottawa, Ontario

January 14, 2000

# THE OTTAWA CARLETON CREDIT UNION LIMITED

## INTERIM BALANCE SHEET (Unaudited)

As at December 31, 1999 <small>(With comparative amounts as at September 30, 1999)</small>	December 31 \$	September 30 \$
<b>ASSETS</b>		
Cash and cash equivalents <i>[note 2]</i>	16,718,372	14,686,124
Loans to members less provision for losses:		
Personal <i>[notes 3, 4, 11 and 12]</i>	14,634,302	13,941,121
Mortgages and commercial loans <i>[notes 3, 4, 11 and 12]</i>	55,044,110	55,557,101
	<u>69,678,412</u>	<u>69,498,222</u>
Investments <i>[note 5]</i>	7,883,533	5,273,979
Capital assets <i>[note 6]</i>	1,415,051	1,394,714
Other assets:		
Accounts receivable	39,343	238,177
Income taxes recoverable	25,181	34,099
Accrued interest receivable	420,319	397,934
Prepaid expenses	113,735	127,233
	<u>598,578</u>	<u>797,443</u>
	<u>96,293,946</u>	<u>91,650,482</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities to non-members:		
Accounts payable and accrued charges	772,159	726,182
Members' deposits: <i>[notes 7, 11 and 14]</i>		
Savings accounts	22,331,671	19,879,431
Personal chequing accounts	3,378,786	3,742,144
Term deposits	11,232,241	10,647,185
Registered retirement savings plans	42,879,536	41,447,252
Registered retirement income funds	7,388,931	7,098,463
Leave plans	2,210,189	2,095,444
Accrued interest payable	1,043,460	1,161,483
	<u>90,464,814</u>	<u>86,071,402</u>
Membership shares <i>[note 9]</i>	784,049	752,547
Deferred income taxes	39,044	36,814
Members' equity		
Undivided earnings	4,233,880	4,063,537
	<u>96,293,946</u>	<u>91,650,482</u>

See accompanying notes

On behalf of the Board:

  
Director

  
Director

**THE OTTAWA CARLETON CREDIT UNION LIMITED**

**INTERIM STATEMENT OF INCOME  
AND UNDIVIDED EARNINGS  
(Unaudited)**

<b>For the three months ended December 31, 1999</b>	<b>December 31</b>	<b>September 30</b>
(With comparative amounts for the year ended September 30, 1999)	\$	\$
Interest earned		
Mortgages and commercial loans <i>[note 3]</i>	953,049	3,669,142
Personal loans <i>[note 3]</i>	377,523	1,497,587
	<u>1,330,572</u>	<u>5,166,729</u>
Investment income	228,419	809,567
	<u>1,558,991</u>	<u>5,976,296</u>
Interest expense <i>[note 11]</i>	770,660	3,001,225
Net interest income	788,331	2,975,071
Other income	138,015	600,399
	<u>926,346</u>	<u>3,575,470</u>
Administrative expenses <i>[see schedule, note 11]</i>	785,940	3,106,560
Operating income	140,406	468,910
Dividends on membership shares	-	33,400
Income before income taxes	140,406	435,510
Provision for income taxes - current	40,454	83,600
Net income for the period	99,952	351,910
Undivided earnings, beginning of period	4,063,537	3,344,607
Contributed surplus on amalgamation with:		
Ottawa Municipal Employees Credit Union Limited <i>[note 10]</i>	-	367,020
Ottawa Citizen Employees Credit Union Limited <i>[note 10]</i>	70,391	-
Undivided earnings, end of period	<u>4,233,880</u>	<u>4,063,537</u>

*See accompanying notes*

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**INTERIM STATEMENT OF CASH FLOWS**  
**(Unaudited)**

<b>For the three months ended December 31, 1999</b>	<b>December 31</b>	<b>September 30</b>
(With comparative amounts for the year ended September 30, 1999)	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income for the period	99,952	351,910
Add non-cash items:		
Amortization	40,156	150,374
Loss on disposal of capital assets	-	22,698
	<b>140,108</b>	<b>524,982</b>
Net change in non-cash working capital balances related to operations <i>[note 13]</i>	247,269	(333,840)
<b>Cash provided by operating activities</b>	<b>387,377</b>	<b>191,142</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in members' deposits	2,628,294	7,061,660
Net increase (decrease) in members' shares	(9,171)	17,947
<b>Cash provided by financing activities</b>	<b>2,619,123</b>	<b>7,079,607</b>
<b>INVESTING ACTIVITIES</b>		
Decrease (increase) in loans receivable	1,146,334	(392,974)
Decrease (increase) in investments	(2,499,988)	355,138
Acquisition of capital assets	(51,149)	(211,421)
Increase in cash on amalgamation with:		
Ottawa Municipal Employees Credit Union Limited <i>[note 10]</i>	-	1,006,799
Ottawa Citizen Employees Credit Union Limited <i>[note 10]</i>	430,551	-
<b>Cash provided by (used in) investing activities</b>	<b>(974,252)</b>	<b>757,542</b>
Increase in cash and cash equivalents during the period	2,032,248	8,028,291
Cash and cash equivalents, beginning of period	14,686,124	6,657,833
<b>Cash and cash equivalents, end of period</b>	<b>16,718,372</b>	<b>14,686,124</b>

*See accompanying notes*

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

December 31, 1999

(With comparative amounts as at September 30, 1999)

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### 1. SIGNIFICANT ACCOUNTING POLICIES

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act and is a member of the Deposit Insurance Corporation of Ontario (D.I.C.O.). The Credit Union follows generally accepted accounting principles. The most significant accounting policies are:

#### a) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### b) Loans

Loans are recorded at principal amounts, less allowance for anticipated losses. Interest income is recorded on the accrual basis.

Provision for losses on loans represent specific and general provisions established as a result of reviews of individual loans and groups of loans in accordance with By-Law #6 of D.I.C.O. Specific provisions are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. A loan becomes impaired as a result of a deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. General provisions are established by reviewing overall arrears and current economic conditions.

A provision for loss is established when there is reasonable doubt that the full amount of principal and interest will be collected. In such cases, a specific provision is established to write down the loan to its estimated realizable amount. The estimated realizable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its estimated realizable value by measuring the fair value of any security, net of expected costs or its observable market price. Amounts recovered from loans previously written off are credited to the provision for losses on loans.

#### c) Amortization

Amortization is provided on a straight-line basis and at rates which are designed to amortize the costs of capital assets over their estimated useful lives as follows:

Buildings	- 20 to 40 years
Furniture	- 5 to 10 years
Equipment	- 5 to 15 years
Office machinery and automated teller machines (ATMs)	- 3 to 5 years
Leasehold improvements	- 10 years

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

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

**d) Regulatory capital and surplus**

Regulatory capital comprises membership shares and undivided earnings. The Credit Unions and Caisses Populaires Act requires the Credit Union to maintain regulatory capital at the following levels:

Regulatory capital as a % of total assets	5.00%
Regulatory capital as a % of risk weighted assets	8.00%

As at December 31, 1999, the Credit Union met each of these requirements with ratios of 5.21% (5.33% at September 30, 1999) of total assets and 12.65 % (12.86% at September 30, 1999) of risk weighted assets.

**e) Fair values**

The carrying values of the Credit Union's assets and liabilities approximates fair value except for mortgages, loans and deposits. The fair values of these instruments have been determined by discounting cash flows using prevailing interest rates of instruments with similar remaining terms. Where the fair values of the mortgages and loans have declined below their carrying value, the carrying values have not been reduced since the Credit Union intends to hold the instruments to maturity.

**2. CASH AND CASH EQUIVALENTS**

	December 31	September 30
	\$	\$
Cash	6,669,902	5,436,124
Deposits callable within 90 days	10,048,470	9,250,000
	<b>16,718,372</b>	<b>14,686,124</b>

The majority of cash is held at Credit Union Central of Ontario (C.U.C.O.) in accounts bearing interest at prime less 4.5% to prime less 2.0%. Deposits callable within 90 days consist of \$9,798,470 (September 30, 1999 - \$9,000,000) held at C.U.C.O. and have an average interest yield of 4.86% at December 31, 1999 and a \$250,000 (September 30, 1999 - \$250,000) Province of Ontario Bond at 7.25%.

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

**3. LOANS TO MEMBERS**

**a) Personal loans**

Personal loans consist mostly of consumer instalment loans, lines of credit and other personal loans. These loans may be repaid in full or in part at any time without notice or penalty. Personal loans may be amortized over a maximum of 5 years, unless collateralized by real property in which case the amortization period can be up to 15 years. Interest rates on personal loans and other advances may be fixed for a maximum of 5 years.

Maturity	December 31						September 30	
	On Demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
	(000's)							
Open	10,269	—	—	—	—	—	10,269	9,465
Closed	—	1,159	1,085	1,056	785	786	4,871	4,938
	10,269	1,159	1,085	1,056	785	786	15,140	14,403
Less: provision For losses on Loans	—	162	56	41	183	64	506	462
	10,269	997	1,029	1,015	602	722	14,634	13,941
Effective interest Rate	9.35%	8.79%	9.67%	9.80%	9.52%	9.91%	9.37%	9.23%
Fair value	10,269	998	1,043	1,035	614	748	14,707	13,992

The Credit Union mitigates its credit risk exposure with respect to personal loans by limiting the aggregate principal amounts of credit to a member at any given time to \$400,000, by performing a thorough credit analysis prior to approval of the loan and by obtaining collateral when appropriate.

As at December 31, 1999, the total approved lines of credit to members was \$33,420,000 (\$27,356,000 at September 30, 1999), of which \$15,271,000 (\$14,020,000 at September 30, 1999) has been disbursed.

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**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

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**3. LOANS TO MEMBERS (Cont'd)**

**b) Mortgages and commercial loans**

Mortgages and commercial loans include \$4,010,977 (\$3,137,281 at September 30, 1999) of mortgages collateralized by real property such as a principal residence and non-owner occupied properties insured by Canada Mortgage and Housing Corporation (CMHC). These mortgages yield interest at an average rate of 6.75 % (6.60% at September 30, 1999), and are repayable in weekly, bi-weekly, monthly or bi-monthly instalments of principal and interest, with a maximum amortization period of 25 years.

The balance of commercial loans was \$1,362,832 as at December 31, 1999 (\$1,370,995 at September 30, 1999), and consisted primarily of mortgages on investment properties. There were no loans to unincorporated associations at the end of the period. The interest earned on commercial loans was approximately \$24,957 during the period (\$63,079 for the year ended September 30, 1999).

Conventional mortgage advances may be made up to a maximum of 75% of the appraised value of the property. Mortgages in excess of 75% of the underlying property are insured with the CMHC. The maximum amount of mortgages to a client at any given time is limited to the lesser of 5% of the Credit Union's assets and \$275,000 (2% and \$500,000 for commercial mortgages).

Mortgages may be pre-approved and interest rates committed up to 90 days prior to the mortgage being advanced. As at December 31, 1999, mortgages totaling \$100,000 (September 30, 1999 - \$677,000) had been approved but not yet disbursed, the furthest term of which is five years.

Mortgages are repaid by monthly instalment payments and are generally amortized over a maximum of 25 years. Mortgages may be prepaid at the mortgagee's option by one lump sum payment per year not exceeding 10% of the original mortgage amount, and/or by increasing the monthly instalments once yearly by 20% of the previous instalment amount. Repayment in full prior to maturity is subject to a penalty equal to the greater of:

- 3 months interest on the outstanding mortgage balance; and
- the interest rate differential between the current market rate and effective interest rate applied on the outstanding balance of the remaining term of the mortgage.

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

**3. LOANS TO MEMBERS (Cont'd)**

Interest rates on mortgages may be fixed for a maximum of 5 years.

Maturity	December 31						September 30	
	On demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
	(000's)							
Meritline	12,333	—	—	—	—	—	12,333	12,428
Closed	—	12,626	8,140	6,603	7,469	7,873	42,711	43,129
	12,333	12,626	8,140	6,603	7,469	7,873	55,044	55,557
Effective interest rate	8.25%	6.57%	7.05%	6.66%	6.56%	6.87%	6.90%	7.01%
Fair value	12,333	12,540	8,060	6,431	7,195	7,601	54,160	54,024

**4. PROVISION FOR LOSSES ON LOANS**

	December 31		September 30	
	Personal	Mortgages	Total	Total
	\$	\$	\$	\$
Balance, beginning of period	461,753	—	461,753	312,750
Less loans written off	1,060	—	1,060	113,128
	460,693	—	460,693	199,622
<b>Add:</b>				
Provision from Municipal C.U.	—	—	—	84,936
Provision from Citizen C.U.	5,589	—	5,589	—
Recoveries on loans previously written off	6,715	—	6,715	14,600
Provision charged to operations	33,285	—	33,285	162,595
<b>Balance, end of period</b>	<b>506,282</b>	<b>—</b>	<b>506,282</b>	<b>461,753</b>

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

**4. PROVISION FOR LOSSES ON LOANS (Cont'd)**

A loan becomes impaired as a result of a deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. A provision for this impairment is recorded in the provision for losses on loans. The amount of loans identified as impaired at the end of the year were as follows:

	December 31	September 30
	\$	\$
Personal	353,798	259,995
Mortgages	588,775	648,783
	<b>942,573</b>	<b>908,778</b>
Percentage of total loans	1.34%	1.30%

**5. INVESTMENTS**

	December 31	September 30
	\$	\$
C.U.C.O term deposits	2,500,000	—
Liquidity reserve deposit	4,271,459	4,184,504
Shares - C.U.C.O. - at cost	1,112,074	1,089,475
	<b>7,883,533</b>	<b>5,273,979</b>

Credit unions who are members of C.U.C.O. are required to invest 5% of their members' shares and deposits (as adjusted annually) in a "Liquidity Reserve Deposit" with C.U.C.O. The Credit Union has complied with this requirement. At December 31, 1999, the Credit Union held the following deposits with C.U.C.O.:

Description	Balance	Interest Rate	Maturity Date
	\$	%	
Term deposit	2,102,629	5.10	February 25, 2000
Term deposit	86,957	5.17	June 23, 2000
Term deposit	599,469	5.08	June 30, 2000
Term deposit	1,000,000	5.34	August 17, 2000
Term deposit	482,404	5.53	October 13, 2000
	<b>4,271,459</b>		

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

**5. INVESTMENTS (Cont'd)**

These deposits are subject to earlier maturity should the applicable by-law not be reaffirmed at any future annual meeting of C.U.C.O and are also subject to the right of the Credit Union to demand payment prior to maturity, within 90 days of demand.

The shares in C.U.C.O. must be maintained at 1.30% of the Credit Union's own members' shares and deposits (as adjusted annually). The Credit Union has complied with this requirement. The shares can be redeemed at cost only through withdrawal from membership or reductions in the balance of the Credit Union's own members' shares and deposits, and are subject to the right of the Board of Directors of C.U.C.O. to impose limitations on the proportion and timing of amounts to be refunded. Dividends on these shares are at the discretion of the Board of Directors of C.U.C.O.

**6. CAPITAL ASSETS**

	December 31		September 30	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Land	418,375	—	418,375	—
Buildings	991,824	478,276	991,824	475,744
Furniture	284,373	188,975	233,168	138,297
Equipment	109,090	70,802	108,411	69,283
Office machinery and ATMs	609,278	345,696	700,669	457,576
Leasehold improvements	162,277	76,417	155,692	72,525
	2,575,217	1,160,166	2,608,139	1,213,425
Less accumulated amortization	1,160,166		1,213,425	
<b>Net book value</b>	<b>1,415,051</b>		<b>1,394,714</b>	

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

**7. MEMBERS' DEPOSITS**

The Credit Union's members' deposits mature as follows:

	December 31						September 30	
	On Demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
	(000's)							
Savings accounts	22,332	—	—	—	—	—	22,332	19,879
Personal chequing accounts	3,379	—	—	—	—	—	3,379	3,742
Term deposits	—	8,700	956	1,143	289	144	11,232	10,647
RRSPs	7,662	18,346	6,374	5,828	3,223	1,447	42,880	41,447
RRIFs	-	4,231	800	1,408	482	468	7,389	7,099
Leave plans	2,210	—	—	—	—	—	2,210	2,096
	35,583	31,277	8,130	8,379	3,994	2,059	89,422	84,910
Effective interest rate	1.89%	4.09%	4.30%	4.16%	4.37%	4.84%		
Fair value	35,583	31,196	8,015	8,141	3,868	1,986	88,789	84,190

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**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

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**8. LIQUIDITY**

The Credit Union is required to maintain at all times an aggregate of at least 6% of all shares, deposits and borrowings in some form of liquid assets. At December 31, 1999, the liquidity requirement was \$5,474,932 (\$5,275,029 at September 30, 1999) while liquid assets totalled \$23,489,831 (\$18,870,628 at September 30, 1999).

**9. SHARE CAPITAL**

Membership shares along with undivided earnings represent the members' residual interest in the Credit Union's net assets and are included in regulatory capital. The shares are redeemable at their paid-up amount when the member withdraws from membership in the Credit Union.

As a condition of membership, each member is required to maintain a minimum of 5 shares at \$5 per share. As at December 31, 1999, the Credit Union had 9,549 (9,113 at September 30, 1999) memberships and 11,637 (11,239 at September 30, 1999) members with a total of \$784,049 in shares (\$752,547 at September 30, 1999). Included in the December 31, 1999 membership shares is \$40,673 of shares transferred on amalgamation by members of Ottawa Citizen Employees Credit Union Limited.

**10. AMALGAMATION**

On October 1, 1999, the members of the Ottawa Carleton Credit Union Limited and the Ottawa Citizen Employees Credit Union Limited approved a statutory amalgamation of the two Credit Unions under the name of the Ottawa Carleton Credit Union Limited. Members' shares of the two Credit Unions were exchanged for equivalent shares of the amalgamated Credit Union. The amalgamation was accounted for by the purchase method since the Ottawa Carleton Credit Union Limited was deemed for accounting purposes to be the purchaser, and the results of operations from October 1, 1999 are included in these financial statements.

On October 15, 1998 a statutory amalgamation was made with the Ottawa Carleton Education Credit Union Limited and the Ottawa Municipal Employees Credit Union Limited under the name of the Ottawa Carleton Credit Union Limited. The September 30, 1999 amounts presented for comparative purposes are the financial position, results of operations and cash flows of the amalgamated entity.

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO INTERIM FINANCIAL STATEMENTS (Unaudited)

December 31, 1999

(With comparative amounts as at September 30, 1999)

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### 10. AMALGAMATION (cont'd)

The exchange of members' shares to the members of Ottawa Citizen Employees Credit Union Limited (Citizen) and Ottawa Municipal Employees Credit Union Limited (Municipal) were allocated as follows:

	Citizen	Municipal
	\$	\$
<b>ASSETS</b>		
Cash and cash equivalents	430,551	1,006,799
Member loans and other assets	1,439,215	11,054,591
Capital assets	9,344	96,158
	<u>1,879,110</u>	<u>12,157,548</u>

### LIABILITIES AND MEMBERS' EQUITY

Member deposits and other liabilities	1,768,046	11,499,098
Members' shares	40,673	291,430
Contributed surplus	70,391	367,020
	<u>1,879,110</u>	<u>12,157,548</u>

Pursuant to the amalgamation agreements approved by the members, the \$70,391 contributed surplus from the members of Ottawa Citizen Employees Credit Union Limited and the \$367,020 from Ottawa Municipal Employees Credit Union Limited have been included in undivided earnings in the period of the respective amalgamation.

### 11. OTHER STATUTORY INFORMATION

a) The interest expense for the year is attributable to the following accounts:

	December 31	September 30
	\$	\$
Savings	73,576	264,267
Personal chequing	6,235	26,230
Term deposits	179,048	436,814
Registered retirement savings plans	415,607	1,846,577
Registered retirement income funds	82,394	346,165
Leave plans	12,259	75,520
Funds borrowed from C.U.C.O.	1,541	5,652
	<u>770,660</u>	<u>3,001,225</u>

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**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

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**11. OTHER STATUTORY INFORMATION (cont'd)**

- b) The total amount of loans and deposits related to restricted parties, as defined in Regulation 82 of the Credit Unions and Caisses Populaires Act, at December 31, 1999 were \$962,218 and \$499,190 respectively (\$816,539 and \$414,716 respectively as at September 30, 1999). There were 12 loans to restricted parties at the end of the period. There was approximately \$16,000 (\$34,000 for the year ended September 30, 1999) in interest earned and \$4,000 (\$12,250 for the year ended September 30, 1999) in interest expense for the period related to restricted parties. No provision for losses was required on these loans.
- c) There was no remuneration paid to directors and committee members during the periods.
- d) The total amount of commissions earned by the Credit Union on the sale of life and disability insurance on behalf of an underwriter was \$10,561 (September 30, 1999 - \$32,289).

**12. COMMITMENTS**

**a) Collateral arrangements**

The Credit Union has assigned its book debts and signed a general security agreement related to two lines of credit with C.U.C.O. The limits on the line of credits were \$6,000,000 Cdn. and \$1,000,000 U.S. and remain unused at year end.

**b) Lease commitments**

The minimum annual lease payments under a long term lease for premises on Centrepointe Drive are \$30,750 per year to October 1, 2004.

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

**13. STATEMENT OF CASH FLOWS**

**a) Net change in non-cash working capital balances related to operations**

	December 31	September 30
	\$	\$
Accounts receivable	198,866	(213,061)
Income taxes recoverable	8,918	(86,252)
Accrued interest receivable	(19,292)	(21,705)
Prepaid expenses	13,498	(68,737)
Accounts payable and accrued charges	45,279	55,915
	<b>247,269</b>	<b>(333,840)</b>

**b) Interest and income taxes paid**

	December 31	September 30
	\$	\$
Interest paid	892,795	3,129,400
Income taxes paid	31,536	174,904

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

The Credit Union enters into equity rate swaps intended to hedge its estimated cash requirements on index linked term deposits linked to various stock market indices maturing over the ensuing three to five years. The Credit Union has sold \$5,123,252 (September 30, 1999 - \$5,099,035) in index linked deposits to its members. The Credit Union does not engage in a trading or speculative hedging program and hence, is not exposed to risk related to fluctuations in these indices.

**15. SEGMENT DISCLOSURES**

The Credit Union operates in the loans and deposit-taking industry in Ontario and, based on the Credit Union's internal management reporting structure, only has one operating segment. Products and services offered to its members include mortgage loans, personal loans, commercial loans and lines of credit. Management and the Board of Directors regularly review the risks and returns related to each of these products and services and make operating decisions accordingly.

No single member accounts for 10 percent or more of the Credit Union's interest revenue.

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**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**December 31, 1999**

(With comparative amounts as at September 30, 1999)

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**16. YEAR 2000**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Credit Union's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Credit Union, including those related to the efforts of third parties, will be fully resolved.

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**THE OTTAWA CARLETON CREDIT UNION LIMITED****SCHEDULE OF ADMINISTRATIVE EXPENSES  
(Unaudited)**

<b>As at December 31, 1999</b>	<b>December 31</b>	<b>September 30</b>
(With comparative amounts as at September 30, 1999)	\$	\$
<b>ADMINISTRATIVE EXPENSES</b>		
Salaries and benefits	333,058	1,438,423
Office administration	62,567	115,554
Automated teller machines	58,052	146,440
Data processing	53,090	197,001
D.I.C.O. deposit insurance	44,144	164,875
Premises	43,797	146,065
Amortization	40,156	150,374
Provision for losses on loans	33,285	162,595
Advertising and promotion	19,505	56,299
Rent	13,973	47,042
Postage	13,188	75,927
Office supplies	12,839	53,505
Credit and collection costs	12,752	40,346
Clearing charges and armoured services	10,364	105,996
Telephone	8,798	30,807
Board	7,175	38,519
Professional fees	6,098	48,551
Education and travel	5,809	24,293
Bonding	4,484	18,438
Annual and other meetings	1,900	597
Insurance - general	906	22,215
Loss on disposal of capital assets	-	22,698
<b>Total administrative expenses</b>	<b>785,940</b>	<b>3,106,560</b>

*See accompanying notes*

**FINANCIAL STATEMENTS**

**THE OTTAWA CARLETON  
CREDIT UNION LIMITED**

**September 30, 1999**



BDO Dunwoody LLP  
Chartered Accountants  
and Consultants

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## AUDITORS' REPORT

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To the Directors of  
The Ottawa Carleton Credit Union Limited

We have audited the balance sheet of **The Ottawa Carleton Credit Union Limited** as at September 30, 1999 and the statements of income and undivided earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

The 1998 and 1997 amounts presented for comparative purposes are based on the financial statements reported on by the Credit Union's former auditors.

A handwritten signature in cursive script that reads "BDO Dunwoody LLP".

Chartered Accountants  
Ottawa, Ontario

November 2, 1999

## AUDITORS' REPORT

To the Members of  
**The Ottawa Carleton Education Credit Union Limited**

We have audited the balance sheets of **The Ottawa Carleton Education Credit Union Limited** as at September 30, 1998 and September 30, 1997 and the statements of income and undivided earnings and cash flows for each of the years in the two year period ended September 30, 1998. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 1998 and September 30, 1997 and the results of its operations and its cash flows for each of the years in the two year period ended September 30, 1998 in accordance with generally accepted accounting principles.

*Ernst & Young LLP*

Ottawa, Canada,  
January 14, 1999.

Chartered Accountants

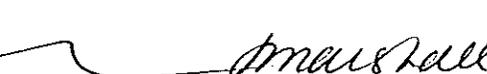
# THE OTTAWA CARLETON CREDIT UNION LIMITED

## BALANCE SHEET

As at September 30	1999	1998	1997
	\$	\$	\$
<b>ASSETS</b>			
Cash and cash equivalents <i>[note 2]</i>	14,686,124	6,657,833	1,278,746
Loans to members less provision for losses:			
Personal <i>[notes 3, 4, 11 and 12]</i>	13,941,121	14,031,011	16,065,750
Mortgages and commercial loans <i>[notes 3, 4, 11 and 12]</i>	55,557,101	44,839,526	44,774,681
	69,498,222	58,870,537	60,840,431
Investments <i>[note 5]</i>	5,273,979	4,878,286	5,321,089
Capital assets <i>[note 6]</i>	1,394,714	1,260,207	1,310,150
Other assets:			
Accounts receivable	238,177	35,726	—
Income taxes recoverable	34,099	—	32,125
Accrued interest receivable	397,934	296,570	194,588
Prepaid expenses	127,233	58,496	91,587
	797,443	390,792	318,300
	91,650,482	72,057,655	69,068,716
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
Liabilities to non-members:			
Borrowings from C.U.C.O. <i>[note 12]</i>	—	—	148,707
Accounts payable and accrued charges	726,182	641,816	643,404
Income taxes payable	—	52,153	—
	726,182	693,969	792,111
Members' deposits: <i>[notes 7, 11 and 14]</i>			
Savings accounts	19,879,431	12,536,651	12,072,641
Personal chequing accounts	3,742,144	2,064,041	1,472,081
Term deposits	10,647,185	8,860,634	8,475,382
Registered retirement savings plans	41,447,252	35,565,617	35,224,596
Registered retirement income funds	7,098,463	5,427,811	4,417,811
Leave plans	2,095,444	1,984,780	1,956,924
Accrued interest payable	1,161,483	1,100,961	1,232,507
	86,071,402	67,540,495	64,851,942
Membership shares <i>[note 9]</i>	752,547	443,170	422,150
Deferred income taxes	36,814	35,414	35,414
Members' equity			
Undivided earnings	4,063,537	3,344,607	2,967,099
	91,650,482	72,057,655	69,068,716

See accompanying notes

On behalf of the Board:

Director

Director

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**STATEMENT OF INCOME AND UNDIVIDED EARNINGS**

Year ended September 30	1999	1998	1997
	\$	\$	\$
Interest earned			
Mortgages and commercial loans <i>[note 3]</i>	3,669,142	3,074,434	2,877,610
Personal loans <i>[note 3]</i>	1,497,587	1,513,551	1,452,489
	<u>5,166,729</u>	<u>4,587,985</u>	<u>4,330,099</u>
Investment income	809,567	206,758	285,673
	<u>5,976,296</u>	<u>4,794,743</u>	<u>4,615,772</u>
Interest expense <i>[note 11]</i>	3,001,225	2,339,014	2,569,968
Net interest income	2,975,071	2,455,729	2,045,804
Other income	600,399	414,687	404,937
	<u>3,575,470</u>	<u>2,870,416</u>	<u>2,450,741</u>
Administrative expenses <i>[see schedule, note 11]</i>	3,106,560	2,320,383	2,084,826
Operating income	468,910	550,033	365,915
Dividends on membership shares	33,400	32,525	32,365
Income before income taxes	435,510	517,508	333,550
Provision for income taxes - current	83,600	140,000	83,520
Net income for the year	351,910	377,508	250,030
Undivided earnings, beginning of year	3,344,607	2,967,099	2,717,069
Contributed surplus on amalgamation with Ottawa Municipal Employees Credit Union Limited <i>[note 10]</i>	367,020	—	—
Undivided earnings, end of year	<u>4,063,537</u>	<u>3,344,607</u>	<u>2,967,099</u>

*See accompanying notes*

# THE OTTAWA CARLETON CREDIT UNION LIMITED

## STATEMENT OF CASH FLOWS

Year ended September 30	1999	1998	1997
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
Net income for the year	351,910	377,508	250,030
Add non-cash items:			
Amortization	150,374	112,991	118,670
Loss (gain) on disposal of capital assets	22,698	2,008	(6,045)
	<u>524,982</u>	<u>492,507</u>	<u>362,655</u>
Net change in non-cash working capital balances related to operations <i>[note 13]</i>	(333,840)	(21,927)	397,981
<b>Cash provided by operating activities</b>	<u>191,142</u>	<u>470,580</u>	<u>760,636</u>
<b>FINANCING ACTIVITIES</b>			
Net increase (decrease) in members' deposits	7,061,660	2,688,553	(585,521)
Net increase in members' shares	17,947	21,020	16,345
<b>Cash provided by financing activities</b>	<u>7,079,607</u>	<u>2,709,573</u>	<u>(569,176)</u>
<b>INVESTING ACTIVITIES</b>			
Decrease (increase) in loans receivable	(392,974)	1,969,894	(4,325,260)
Decrease in investments	355,138	442,803	19,604
Acquisition of capital assets	(211,421)	(67,456)	(47,143)
Proceeds from sale of capital assets	—	2,400	9,196
Increase in cash on amalgamation with Ottawa Municipal Employees Credit Union Limited <i>[note 10]</i>	1,006,799	—	—
<b>Cash provided by investing activities</b>	<u>757,542</u>	<u>2,347,641</u>	<u>(4,343,603)</u>
<b>Increase in cash and cash equivalents during the year</b>	<u>8,028,291</u>	<u>5,527,794</u>	<u>(4,152,143)</u>
Cash, cash equivalents and borrowings, beginning of year	6,657,833	1,130,039	5,282,182
<b>Cash, cash equivalents and borrowings, end of year</b>	<u>14,686,124</u>	<u>6,657,833</u>	<u>1,130,039</u>
<b>Comprised of</b>			
Cash and equivalents <i>[note 2]</i>	14,686,124	6,657,833	1,278,746
Borrowings from C.U.C.O. <i>[note 12]</i>	—	—	(148,707)
	<u>14,686,124</u>	<u>6,657,833</u>	<u>1,130,039</u>

See accompanying notes

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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### 1. SIGNIFICANT ACCOUNTING POLICIES

The Credit Union is incorporated under the Credit Unions and Caisses Populaires Act and is a member of the Deposit Insurance Corporation of Ontario (D.I.C.O.). The Credit Union follows generally accepted accounting principles. The most significant accounting policies are:

#### a) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### b) Loans

Loans are recorded at principal amounts, less allowance for anticipated losses. Interest income is recorded on the accrual basis.

Provision for losses on loans represent specific and general provisions established as a result of reviews of individual loans and groups of loans in accordance with By-Law #6 of D.I.C.O. Specific provisions are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. A loan becomes impaired as a result of a deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. General provisions are established by reviewing overall arrears and current economic conditions.

A provision for loss is established when there is reasonable doubt that the full amount of principal and interest will be collected. In such cases, a specific provision is established to write down the loan to its estimated realizable amount. The estimated realizable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its estimated realizable value by measuring the fair value of any security, net of expected costs or its observable market price. Amounts recovered from loans previously written off are credited to the provision for losses on loans.

#### c) Amortization

Amortization is provided on a straight-line basis and at rates which are designed to amortize the costs of capital assets over their estimated useful lives as follows:

Buildings	- 20 to 40 years
Furniture	- 5 to 10 years
Equipment	- 5 to 15 years
Office machinery and automated teller machines (ATMs)	- 3 to 5 years
Leasehold improvements	- 10 years

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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### 1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### d) Income taxes

Income taxes are accounted for using the deferral method of income tax allocation. Under this method, differences arising between the timing of recognition of certain revenue and expense items in the financial statements and their recognition in the computation of taxable income give rise to deferred income taxes.

#### e) Regulatory capital and surplus

Regulatory capital comprises membership shares and undivided earnings. The Credit Unions and Caisses Populaires Act requires the Credit Union to maintain regulatory capital at the following levels for the year ended September 30:

	1999	1998	1997
Regulatory capital as a % of total assets	5.00%	5.00%	4.60%
Regulatory capital as a % of risk weighted assets	8.00%	8.00%	7.50%

As at September 30, 1999, the Credit Union met each of these requirements with ratios of 5.33% (5.24% in 1998 and 5.02% in 1997) of total assets and 12.86 % (12.45% in 1998 and 9.85% in 1997) of risk weighted assets.

#### f) Fair values

The carrying values of the Credit Union's assets and liabilities approximates fair value except for mortgages, loans and deposits. The fair values of these instruments have been determined by discounting cash flows using prevailing interest rates of instruments with similar remaining terms. Where the fair values of the mortgages and loans have declined below their carrying value, the carrying values have not been reduced since the Credit Union intends to hold the instruments to maturity.

### 2. CASH AND CASH EQUIVALENTS

	1999	1998	1997
	\$	\$	\$
Cash	5,436,124	4,005,492	1,002,736
Deposits callable within 90 days	9,250,000	2,652,341	276,010
	<u>14,686,124</u>	<u>6,657,833</u>	<u>1,278,746</u>

The majority of cash is held at Credit Union Central of Ontario (C.U.C.O.) in accounts bearing interest at prime less 4.5% to prime less 2.0%. Deposits callable within 90 days consist of \$9,000,000 (1998

# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

- \$2,652,341; 1997 - \$276,010) held at C.U.C.O. and have an average interest yield of 5.03% at September 30, 1999 and a \$250,000 Province of Ontario Bond at 7.25% (1998 and 1997 - nil).

### 3. LOANS TO MEMBERS

#### a) Personal loans

Personal loans consist mostly of consumer instalment loans, lines of credit and other personal loans.

These loans may be repaid in full or in part at any time without notice or penalty. Personal loans may be amortized over a maximum of 5 years, unless collateralized by real property in which case the amortization period can be up to 15 years. Interest rates on personal loans and other advances may be fixed for a maximum of 5 years.

	1999						1998		1997
Maturity	On demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Open	9,465	—	—	—	—	—	9,465	12,386	13,652
Closed	—	1,212	1,089	999	849	789	4,938	1,958	2,634
	9,465	1,212	1,089	999	849	789	14,403	14,344	16,286
Less: provision for losses on loans	—	135	121	111	95	—	462	313	221
Carrying value	9,465	1,077	968	888	754	789	13,941	14,031	16,065
Effective interest rate	9.00%	8.60%	9.62%	9.59%	8.55%	9.35%	9.23%	10.65%	8.33%
Fair value	9,465	1,077	985	909	743	813	13,992	14,301	16,285

The Credit Union mitigates its credit risk exposure with respect to personal loans by limiting the aggregate principal amounts of credit to a member at any given time to \$400,000, by performing a thorough credit analysis prior to approval of the loan and by obtaining collateral when appropriate.

As at September 30, 1999, the total approved lines of credit to members was \$27,356,000 (\$34,525,000 in 1998 and \$36,242,053 in 1997), of which \$14,020,000 (\$17,407,000 in 1998 and \$21,823,735 in 1997) has been disbursed.

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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### **b) Mortgages and commercial loans**

Mortgages and commercial loans include \$3,137,281 (\$6,820,446 in 1998 and \$6,858,041 in 1997) of mortgages collateralized by real property such as a principal residence and non-owner occupied properties insured by Canada Mortgage and Housing Corporation (CMHC). These mortgages yield interest at an average rate of 6.60% (6.70% in 1998 and 6.91% in 1997), and are repayable in weekly, bi-weekly, monthly or bi-monthly instalments of principal and interest, with a maximum amortization period of 25 years.

The balance of commercial loans was \$1,370,995 as at September 30, 1999 (\$1,404,239 in 1998 and \$848,623 in 1997), and consisted primarily of mortgages on investment properties. There were no loans to unincorporated associations at the end of the year. The interest earned on commercial loans was approximately \$63,079 (\$86,420 in 1998 and \$52,858 in 1997) during the year.

Conventional mortgage advances may be made up to a maximum of 75% of the appraised value of the property. Mortgages in excess of 75% of the underlying property are insured with the CMHC. The maximum amount of mortgages to a client at any given time is limited to the lesser of 5% of the Credit Union's assets and \$275,000 (2% and \$500,000 for commercial mortgages).

Mortgages may be pre-approved and interest rates committed up to 90 days prior to the mortgage being advanced. As at September 30, 1999, mortgages totaling approximately \$677,000 (1998 - \$111,000 and 1997 - \$180,000) had been approved but not yet disbursed, the furthest term of which is five years.

Mortgages are repaid by monthly instalment payments and are generally amortized over a maximum of 25 years. Mortgages may be prepaid at the mortgagee's option by one lump sum payment per year not exceeding 10% of the original mortgage amount, and/or by increasing the monthly instalments once yearly by 20% of the previous instalment amount. Repayment in full prior to maturity is subject to a penalty equal to the greater of:

- 3 months interest on the outstanding mortgage balance; and
- the interest rate differential between the current market rate and effective interest rate applied on the outstanding balance of the remaining term of the mortgage.



# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

### 4. PROVISION FOR LOSSES ON LOANS (Cont'd)

A loan becomes impaired as a result of a deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. A provision for this impairment is recorded in the provision for losses on loans. The amount of loans identified as impaired at the end of the year were as follows:

	1999	1998	1997
	\$	\$	\$
Personal	259,995	260,908	197,700
Mortgages	648,783	281,453	263,573
	<b>908,778</b>	<b>542,361</b>	<b>461,273</b>
Percentage of total loans	1.30%	0.92%	0.76%

### 5. INVESTMENTS

	1999	1998	1997
	\$	\$	\$
C.U.C.O term deposits	—	1,000,000	—
D.I.C.O. note issue	—	—	1,250,000
Liquidity reserve deposit	4,184,504	3,102,630	3,256,872
Shares - C.U.C.O. - at cost	1,089,475	775,656	814,217
	<b>5,273,979</b>	<b>4,878,286</b>	<b>5,321,089</b>

Credit unions who are members of C.U.C.O. are required to invest 5% of their members' shares and deposits (as adjusted annually) in a "Liquidity Reserve Deposit" with C.U.C.O. The Credit Union has complied with this requirement. At September 30, 1999, the Credit Union held the following deposits with C.U.C.O.:

Description	Balance	Interest Rate	Maturity Date
	\$	%	
Term Deposit	482,404	4.49	October 15, 1999
Term Deposit	599,470	4.69	December 9, 1999
Term Deposit	2,102,630	5.10	February 25, 1999
Term Deposit	1,000,000	5.34	August 17, 2000
	<b>4,184,504</b>		

These deposits are subject to earlier maturity should the applicable by-law not be reaffirmed at any future annual meeting of C.U.C.O and are also subject to the right of the Credit Union to demand payment prior to maturity, within 90 days of demand.

# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

The shares in C.U.C.O. must be maintained at 1.30% of the Credit Union's own members' shares and deposits (as adjusted annually). The Credit Union has complied with this requirement. The shares can be redeemed at cost only through withdrawal from membership or reductions in the balance of the Credit Union's own members' shares and deposits, and are subject to the right of the Board of Directors of C.U.C.O. to impose limitations on the proportion and timing of amounts to be refunded. Dividends on these shares are at the discretion of the Board of Directors of C.U.C.O.

### 6. CAPITAL ASSETS

	1999		1998		1997	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$	\$	\$
Land	418,375	—	380,260	—	380,260	—
Buildings	991,824	475,744	796,924	276,508	796,924	258,592
Furniture	233,168	138,297	201,986	116,054	201,986	101,067
Equipment	108,411	69,283	108,411	62,703	108,411	57,123
Office machinery and ATMs	700,669	457,576	525,775	395,451	473,010	347,487
Leasehold improvements	155,692	72,525	153,812	56,245	153,812	39,984
	2,608,139	1,213,425	2,167,168	906,961	2,114,403	804,253
Less accumulated amortization	1,213,425		906,961		804,253	
<b>Net book value</b>	<b>1,394,714</b>		<b>1,260,207</b>		<b>1,310,150</b>	

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

September 30, 1999

**7. MEMBERS' DEPOSITS**

The Credit Union's members' deposits mature as follows:

							1999	1998	1997
	On demand	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Total	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
	(000s)								
Savings accounts	19,879	—	—	—	—	—	19,879	12,537	12,073
Personal chequing accounts	3,742	—	—	—	—	—	3,742	2,064	1,472
Term deposits	—	8,456	935	674	416	166	10,647	8,860	8,475
RRSPs	10,033	16,210	5,816	4,972	3,274	1,142	41,447	35,566	35,224
RRIFs	1,519	3,826	762	465	392	135	7,099	5,428	4,418
Leave plans	2,096	—	—	—	—	—	2,096	1,985	1,957
Carrying value	37,269	28,492	7,513	6,111	4,082	1,443	84,910	66,440	63,619
Effective interest rate	1.10%	4.13%	4.05%	3.88%	4.23%	4.37%			
Fair value	37,269	28,429	7,371	5,863	3,902	1,356	84,190	66,983	64,732

**8. LIQUIDITY**

The Credit Union is required to maintain at all times an aggregate of at least 6% of all shares, deposits and borrowings in some form of liquid assets. At September 30, 1999, the liquidity requirement was \$5,275,029 (\$4,091,988 in 1998 and \$3,856,310 in 1997) while liquid assets totaled \$18,870,628 (\$10,760,463 in 1998 and \$6,410,299 in 1997).

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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### 9. SHARE CAPITAL

Membership shares along with undivided earnings represent the members' residual interest in the Credit Union's net assets and are included in regulatory capital. The shares are redeemable at their paid-up amount when the member withdraws from membership in the Credit Union.

As a condition of membership, each member is required to maintain a minimum of 5 shares at \$5 per share. As at September 30, 1999, the Credit Union had 9,113 (6,838 in 1998 and 6,665 in 1997) memberships and 11,239 (8,802 in 1998 and 8,891 in 1997) members with a total of \$752,547 in shares (\$443,170 in 1998 and \$442,150 in 1997). Included in the 1999 membership shares is \$291,430 of shares transferred on amalgamation by members of Ottawa Municipal Employees Credit Union Limited.

### 10. AMALGAMATION

On October 15, 1998, the members of the Ottawa Carleton Education Credit Union Limited and the Ottawa Municipal Employees Credit Union Limited approved a statutory amalgamation of the two Credit Unions under the name of the Ottawa Carleton Credit Union Limited. Membership shares of the two Credit Unions were exchanged for equivalent shares of the amalgamated Credit Union. The amalgamation was accounted for by the purchase method since the Ottawa Carleton Education Credit Union Limited was deemed for accounting purposes to be the purchaser, and the results of operations from October 15, 1998 are included in these financial statements. The 1998 and 1997 amounts presented for comparative purposes are the financial position, operations and cash flows of the Ottawa Carleton Education Credit Union Limited.

The exchange of members' shares to the members of Ottawa Municipal Employees Credit Union Limited was allocated as follows:

	\$
<b>ASSETS</b>	
Cash and cash equivalents	1,006,799
Member loans and other assets	11,054,591
Capital assets	96,158
	<hr/> 12,157,548

### LIABILITIES AND MEMBERS' EQUITY

Member deposits and other liabilities	11,499,098
Membership shares	291,430
Contributed surplus	367,020
	<hr/> 12,157,548

Pursuant to the amalgamation agreement approved by the members, the \$367,020 contributed surplus from the members of Ottawa Municipal Employees Credit Union Limited has been included in undivided earnings.

### 11. OTHER STATUTORY INFORMATION

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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a) The interest expense for the year is attributable to the following accounts:

	1999	1998	1997
	\$	\$	\$
Savings	264,267	52,242	35,527
Personal chequing	26,230	23,974	19,291
Term deposits	436,814	322,188	411,227
Registered retirement savings plans	1,846,577	1,579,865	1,783,783
Registered retirement income funds	346,165	235,978	218,968
Leave plans	75,520	71,228	71,538
Funds borrowed from C.U.C.O.	5,652	53,144	29,305
Other	—	395	329
	<u>3,001,225</u>	<u>2,339,014</u>	<u>2,569,968</u>

b) The total amount of loans and deposits related to restricted parties, as defined in Regulation 82 of the Credit Unions and Caisses Populaires Act, at the end of the year were \$816,539 and \$414,716 respectively (\$575,256 and \$545,330 respectively in 1998; \$593,911 and \$533,867 respectively in 1997). There were 14 loans to restricted parties at September 30, 1999. There was approximately \$34,000 (\$35,000 in 1998 and \$37,000 in 1997) in interest earned and \$12,250 (\$20,200 in 1998 and \$19,900 in 1997) in interest expense for the year related to restricted parties. No provision for losses was required on these loans.

c) There was no remuneration paid to directors and committee members during the years.

d) The total amount of commissions earned by the Credit Union on the sale of life and disability insurance on behalf of an underwriter was \$32,289 (1998 - \$32,435 and 1997 - \$26,170).

## 12. COMMITMENTS

### a) Collateral arrangements

The Credit Union has assigned its book debts and signed a general security agreement related to two lines of credit with C.U.C.O. The limits on the line of credits were \$6,000,000 Cdn. and \$1,000,000 U.S. and remain unused at the 1999 and 1998 year ends.

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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### 12. COMMITMENTS (Cont'd)

#### b) Lease commitments

The minimum annual lease payments under a long term lease for premises on Centrepointe Drive are \$26,650 per year to October 1, 1999 and \$30,750 per year thereafter to October 1, 2004.

### 13. STATEMENT OF CASH FLOWS

#### a) Net change in non-cash working capital balances related to operations

	1999	1998	1997
	\$	\$	\$
Accounts receivable	(213,061)	(35,726)	—
Income taxes recoverable/payable	(86,252)	84,278	(784)
Accrued interest receivable	(21,705)	(101,982)	76,016
Prepaid expenses	(68,737)	33,091	(5,216)
Accounts payable and accrued charges	55,915	(1,588)	327,965
	(333,840)	(21,927)	397,981

#### b) Interest and income taxes paid

	1999	1998	1997
	\$	\$	\$
Interest paid	3,129,400	2,470,560	2,901,061
Income taxes paid	174,904	87,847	84,304

### 14. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union enters into equity rate swaps intended to hedge its estimated cash requirements on index linked term deposits linked to various stock market indices maturing over the ensuing 3 to 5 years. The Credit Union has sold \$5,099,035 (1998 - \$4,553,682; 1997 - \$2,519,199) in index linked deposits to its members. The Credit Union does not engage in a trading or speculative hedging program and hence, is not exposed to risk related to fluctuations in these indices.

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# THE OTTAWA CARLETON CREDIT UNION LIMITED

## NOTES TO FINANCIAL STATEMENTS

September 30, 1999

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### 15. SEGMENT DISCLOSURES

The Credit Union operates in the loans and deposit-taking industry in Ontario and, based on the Credit Union's internal management reporting structure, only has one operating segment. Products and services offered to its members include mortgage loans, personal loans, commercial loans and lines of credit. Management and the Board of Directors regularly review the risks and returns related to each of these products and services and make operating decisions accordingly.

No single member accounts for 10 percent or more of the Credit Union's interest revenue.

### 16. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Credit Union's ability to conduct normal business operations. During the year, the Credit Union replaced almost all of its on-site hardware and software and has upgraded to a new banking system which management believes to be year 2000 compliant.

However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Credit Union, including those related to the efforts of members, suppliers, or other third parties, will be fully resolved.

### 17. SUBSEQUENT EVENT

On October 1, 1999, the Ottawa Carleton Credit Union Limited amalgamated with the Ottawa Citizen Employees Credit Union Limited through a statutory amalgamation. At October 1, 1999 the unaudited financial statements of the Ottawa Citizen Employees Credit Union Limited had member's equity of \$130,000.

### 18. COMPARATIVE FIGURES

Certain of the 1998 and 1997 balances have been reclassified to conform to the presentation adopted in 1999.

**THE OTTAWA CARLETON CREDIT UNION LIMITED**  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**

September 30	1999	1998	1997
	\$	\$	\$
<b>ADMINISTRATIVE EXPENSES</b>			
Salaries and benefits	1,438,423	935,983	874,714
Data processing	197,001	187,376	190,054
D.I.C.O. deposit insurance	164,875	144,666	144,835
Provision for losses on loans	162,595	167,778	72,044
Amortization	150,374	112,991	118,670
Automated teller machines	146,440	99,077	103,124
Premises	146,065	133,269	122,731
Office administration	115,554	87,670	93,424
Clearing charges and armoured services	105,996	52,469	40,727
Postage	75,927	59,868	51,934
Advertising and promotion	56,299	49,422	35,277
Office supplies	53,505	42,106	32,879
Professional fees	48,551	51,714	54,875
Rent	47,042	48,614	46,064
Credit and collection costs	40,346	9,135	7,135
Board	38,519	37,232	25,147
Telephone	30,807	25,701	17,076
Education and travel	24,293	39,511	25,128
Loss (gain) on disposal of capital assets	22,698	2,008	(6,045)
Insurance - general	22,215	13,655	13,321
Bonding	18,438	18,026	20,297
Annual and other meetings	597	2,112	1,415
<b>Total administrative expenses</b>	<b>3,106,560</b>	<b>2,320,383</b>	<b>2,084,826</b>

*See accompanying notes*

## SIGNED CONSENT

To the Board of Directors of  
The Ottawa Carleton Credit Union Limited

We refer to the Offering Statement of The Ottawa Carleton Credit Union Limited, dated March 31, 2000, related to the sale and distribution of Class B Investment Shares.

We consent to the use in the above-mentioned Offering Statement of our auditors' report dated November 2, 1999 to the Board of Directors of The Ottawa Carleton Credit Union Limited on the following annual audited financial statements:

- Balance Sheet as at September 30, 1999; and
- Statements of Income and Undivided Earnings and Cash Flows for the year ended September 30, 1999.

We also consent to the use in the above mentioned Offering Statement of our review engagement report dated January 14, 2000 to the Board of Directors of The Ottawa Carleton Credit Union Limited on the following unaudited interim financial statements:

- Balance Sheet as at December 31, 1999; and
- Statements of Income and Undivided Earnings and Cash Flows for the three month period ended December 31, 1999.

We report that we have read the Offering Statement and have no reason to believe that there are any misrepresentations in the information therein that is derived from the audited annual financial statement upon which we have reported, or the unaudited financial statement which we have reviewed, or that is within our knowledge as a result of our audit or review of such financial statements.

Further, we hereby consent to the use of our name and to the inclusion of our comments relating to certain income tax considerations in the said Offering Statement under the subheading "Canadian Federal Income Tax Aspects".

This letter is provided to the Credit Union pursuant to the requirements of the *Credit Unions and Caisses Populaires Act, 1994* and not for any other purpose.



Chartered Accountants  
Ottawa, Ontario

March 31, 2000

To the Ministry of Finance

Dear Sirs:

**Re: Ottawa Carleton Credit Union Limited**

We refer to the Offering Statement of the above Credit Union dated March 31, 2000 relating to the sale and distribution of Class B special shares, Series 1.

We consent to the use in the above mentioned Offering Statement of our report dated January 14, 1999 to the Members of the Ottawa Carleton Education Credit Union Limited on the following financial statements:

- Balance sheets as at September 30, 1998 and September 30, 1997;
- Statements of income and undivided earnings and cash flows for the two years ended September 30, 1998 and September 30, 1997.

This letter is provided to the Ministry of Finance to which it is addressed pursuant to the requirements of the Credit Unions and Caisses Populaires Act, 1994 and not for any other purpose.

*Ernst & Young LLP*

Ottawa, Canada,  
March 30, 2000.

Chartered Accountants

## STATEMENT OF OTHER MATERIAL FACTS

There are no other material facts relating to the issues of securities in this Offering Statement which have not been suitably disclosed herein.

**BOARD RESOLUTION**

February 23<sup>rd</sup>, 2000

*"The Board of Directors of Ottawa Carleton Credit Union Limited approves the issue of Class B Special Shares, Series 1 ("Class B Investment Shares"), subject to the Articles of Incorporation and Articles of Amendment of Ottawa Carleton Credit Union Limited, and as described in the Offering Statement to be dated March 31, 2000."*

I certify the above to be a true copy of a resolution adopted by the Board of Directors of Ottawa Carleton Credit Union Limited at their meeting of February 23<sup>rd</sup>, 2000.

 Louise Boyer, Corporate Secretary

**CERTIFICATE**

Form 1

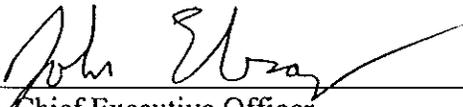
*Credit Unions and Caisses Populaires Act, 1994*

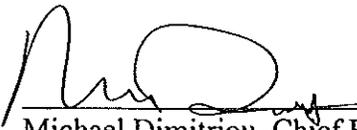
**CERTIFICATE OF DISCLOSURE**

(Subsection 77 (4) of the Act)

*The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Offering Statement as required by Part V of the Credit Unions and Caisses Populaires Act, 1994, and the regulations thereunder.*

Dated at Ottawa, Ontario, March 31, 2000

  
\_\_\_\_\_  
John Ebsary, Chief Executive Officer

  
\_\_\_\_\_  
Michael Dimitriou, Chief Financial Officer

  
\_\_\_\_\_  
Bruce R. Corbett, Chairperson

Subscription Form

Please accept my subscription for ( ) (number of shares)

Class B Investment Shares (at \$ 1.00 per share) of Ottawa Carleton Credit Union Limited

Name (as it should appear on share certificate/shareholders' register) Social Insurance Number

Street Address Apt. # Account #

City Province Postal Code

I will be paying cash for these shares as follows: (check as many as apply)

\$ is already on deposit at Ottawa Carleton Credit Union Limited. I have signed a separate authorization form to put these funds on hold until this offering is completed or withdrawn.

\$ is coming from outside the Credit Union. I have today provided these funds to the Credit Union for deposit.

\$ of the shares being subscribed for are to be put into the Ottawa Carleton Investment Retirement Plan (RESP). I have completed and signed a separate RRSP Contract Application Form.

\$ of the shares being subscribed for are to be put into the Ottawa Carleton Investment Retirement Plan (RRIF). I have completed and signed a separate RRIF Contract Application Form.

\$ of the shares being subscribed for are to be put into the Ottawa Carleton Education Savings Plan (RESP). I have completed and signed a separate RESP Contract Application Form.

\$ of the shares are to be held by me outside any RRSP, RRIF, or RESP I may have.

By signing this form, I hereby acknowledge that I am a member of Ottawa Carleton Credit Union Limited, have received and read in its entirety a copy of the Offering Statement dated March 31, 2000 for Ottawa Carleton Credit Union Limited Class B Investment Shares serial number , and that I have noted in particular the Description of Securities Being Offered as set out on pages 10 to 13 and the Risk Factors starting on page 16. I also understand that the securities being purchased are NOT deposits, and are NOT insured by the Deposit Insurance Corporation of Ontario, and that dividends on these securities are NOT guaranteed. I have considered whether or not I should obtain independent advice on the suitability of this investment to my particular financial situation, and have either obtained such advice or determined that I do not require such advice.

Member's Signature Date Time (a.m./p.m.)

FOR OFFICE USE ONLY
Date and Time
Accepted by:
Employee's Signature Branch #

**AUTHORIZATION TO PLACE FUNDS ON HOLD**

Name of Member: \_\_\_\_\_

Date: \_\_\_\_\_

I have subscribed today to buy a total of \_\_\_\_\_ Class B Investment Shares of Ottawa Carleton Credit Union Limited. By signing this form below, I hereby authorize Ottawa Carleton Credit Union Limited to place the following funds on deposit at the Credit Union on hold to guarantee payment for these shares.

This hold will be released only in one of the following three manners:

1. Upon the Offering being closed, the Credit Union will release the hold and then debit the accounts to pay for the shares on the issue date. If I have subscribed for more than the Maximum Permissible Holding, the Credit Union will release the hold and then debit the accounts to pay for the Maximum Permissible Holding on the issue date.
2. If the Offering is withdrawn or cancelled for any reason, the Credit Union will release the hold immediately.
3. If I exercise my right to reverse my decision to purchase these shares within two days, excluding weekends and holidays, following receipt of a copy of the Offering Statement, dated March 31, 2000, for the Class B Investment Shares the Credit Union will release the hold on funds immediately upon being informed of such reversal.

The Credit Union account(s) and dollar amount(s) to be placed on hold under this agreement is (are):

Branch #	Acc't #	Type	Sub #	\$

\_\_\_\_\_  
(Credit Union Witness)

\_\_\_\_\_  
(Credit Union Member/Share Subscriber)