

**OFFERING STATEMENT**

**dated March 31, 1997**



*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 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.*

**OSHAWA COMMUNITY CREDIT UNION LIMITED  
OFFERING STATEMENT**

**dated March 31, 1997**

**MINIMUM \$1,200,000**

**MAXIMUM \$2,000,000**

**SERIES 1, CLASS B SPECIAL SHARES**

**(NON-CUMULATIVE, NON-VOTING, REDEEMABLE NON-  
PARTICIPATING)**

**(“CLASS B INVESTMENT SHARES, SERIES 1”)**

*The subscription price for each Class B Investment Share will be \$1 per share with a minimum of 1,000 shares per member which may be subscribed for \$1,000.00, to a maximum of 50,000 shares per member which may be subscribed for \$50,000.00.*

*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, Series 1 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 11 to 14.*

**The securities offered are not deposits. The securities offered are not insured. The dividends on the securities are not guaranteed.**

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## GLOSSARY OF TERMS

- "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 the 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) The credit union has contravened an order of DICO acting as a stabilization authority; (3) DICO is of the opinion that the assets of the credit union are not sufficient to give adequate protection to its depositors; (4) The 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 the 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 Director of Credit Unions that the Director has ordered the 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 the credit union; (d) Exercise the powers of the credit union and of the directors, officers, loan officers and credit committees; (e) Exclude the directors of the credit union and its officers, committee members, employees and agents from the property and business of the credit union; and (f) Require the 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, with the purpose of assisting its members in the clearing of their clients' cheques and electronic debit items.
- "Credit Union Central of Canada" (CUCC) - a financial service co-operative operating at the national level, owned primarily by provincial credit union centrals, providing access to a national liquidity pool and 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 380 member credit unions, including Oshawa Community, and providing clearing, investment, credit and other services.
- "Escrow" - a form of trust agreement in which funds are temporarily placed under the control of a third party (trustee) until specific conditions, set out in advance, are met.
- "Interac" - a national network of automated banking machines and point-of-sale terminals, enabling clients of one financial institution to use automated banking machines and terminals not owned and generated by that financial institution.
- "Leverage Ratio" - total regulatory capital divided by total assets.
- "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 Margin" - 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 borrowing 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 a 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 of the shares vote only in certain limited circumstances 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 to the individual or entity, does not exceed \$25,000.00.
- "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 equal to the issue price of the shares (\$1 per share) plus any dividends which have been declared but not yet paid.
- "Risk-weighted" - under Bank for International Settlement (Risk-Weighted) capital adequacy rules, 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 total risk-weighted assets.
- "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.
- "Special Dividend" - it is the intention of the Board of Directors to declare a one-time dividend of 5% of the issue price of the Class B Investment Shares, Series 1, payable in the form of additional Class B Investment Shares, Series 1, within thirty days of issuance.
- "Substantial Portion" - assets having an aggregate value equal to or greater than 15 percent of a credit union's assets at the end of its previous fiscal year.
- "Supervision" - a legal status ordered by the Director of Credit Unions when: (1) The credit union asks, in writing, that it be subject to supervision; (2) The credit union is not in compliance with prescribed capital or liquidity requirements; (3) The Director has reasonable grounds for believing that the 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) The 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 limited under this Act; (5) The credit union did not comply with a Director's enforcement order regarding an infringement of the Act; (6) The 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 the 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 the credit union and its directors, committee members, officers and employees to not exercise any powers of the credit union or of its directors, committee members, officers and employees; (c) establish guidelines for the operation of the credit union; (d) order the 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 the credit union's board and its credit and audit committees; and (f) propose bylaws for the 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 and ii.*

### **The Credit Union**

Oshawa Community Credit Union Limited ("Oshawa Community" or the "Credit Union") was incorporated February 16, 1952, to serve the members of the Oshawa Central Study Group, and now serves those resident or employed in the City of Oshawa, as well as two employee groups in the geographic area of the City of Oshawa. Oshawa Community's assets as of December 31, 1996 were \$61,766,888.

The Credit Union is currently not in compliance with the Leverage and BIS Ratios for regulatory capital required by the *Credit Unions and Caisses Populaires Act, 1994* ("the Act"), having attained a Risk-Weighted Ratio of 7.1% and a Leverage Ratio of 3.2% as of December 1, 1996. It therefore operates under a capital adequacy variation. See pages 3, 4, and 5 for further details.

Oshawa Community provides a broad range of financial services and products to approximately 5,700 members through its office in Oshawa, Ontario. The Credit Union provides a full range of retail financial services and a broad range of consumer credit and non-credit products. See "Business of Oshawa Community Credit Union Limited", on pages 7 to 9.

### **Securities Offered**

Oshawa Community Credit Union Limited offers for sale to members Class B Non-Cumulative, Non-Voting, Non-Participating, Special Shares ("Class B Investment Shares, Series 1") in the capital of the Credit Union. Class B Investment Shares, Series 1 are special, non-membership shares and constitute part of the authorized capital of the Credit Union. Subscriptions will be accepted from members of Oshawa Community for a minimum of 1,000 shares per member and a maximum of 50,000 shares per member for the Class B Investment Shares, Series 1. Subscription, purchase and redemption of these shares are exclusively through the office of Oshawa Community. 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 Act. Any holder of Class B Investment Shares, Series 1 may at any time request that they be redeemed, but all redemptions are subject to a limit, of 10% of the Class B Investment Shares, Series 1 issued and outstanding according to the most recent audited financial statements of the Credit Union, 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, Series 1, at the Redemption Amount, for cancellation after a period of five years. See "Description of Securities Being Offered" on pages 11 to 14.



Subscriptions for the Class B Investment Shares, Series 1 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 2,000,000 Class B Investment Shares, Series 1, or until a date on which the Board, having noted that subscriptions have been received for more than the minimum 1,200,000 Class B Investment Shares, Series 1 but not for the maximum 2,000,000 investment shares and that six months has not expired since the date of this Offering Statement, resolves to close this 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, Series 1 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 Class B Investment Shares, Series 1 shall be \$2,000,000. The costs of issuing these securities are not expected to exceed \$50,000, and these costs, net of applicable tax savings approximating \$11,005, will be deducted from the gross proceeds in arriving at the amount to be reported as share capital outstanding. The estimated maximum net proceeds of this offering of securities is \$1,961,005. The principal use of the net proceeds and purpose of this offering is to enable the Credit Union to satisfy the legal requirements to achieve and maintain a minimum level of regulatory capital, as set out in Section 84 of the Act, and to provide a capital base for future growth. As of December 31, 1996, the Credit Union's Leverage Ratio was 3.2%; the Credit Union was not, therefore, in compliance with regulatory capital requirements. The Credit Union's capital base, if this offering is fully subscribed and otherwise assuming the Credit Union's assets and equity are as stated in the Credit Union's December 31, 1996 financial statements, could support additional growth of \$16,471,732; Oshawa Community's Leverage Ratio would be 6.33%, which exceeds current regulatory capital requirements. On the same assumptions but if the offering is only minimally subscribed, the Credit Union's capital base could support additional growth of \$471,732; Oshawa Community's Leverage Ratio would be 5.04%, which exceeds current regulatory requirements. 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. See "Use of Proceeds From Sale of Securities" on page 23.

### **Risk Factors**

Investments in the Class B Investment Shares, Series 1 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 Oshawa Community Board of Directors for Class B Investment Shares, Series 1 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 of Directors, 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 dividends will be paid for every year; however, 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 purchase price of Class B Investment Shares, Series 1 to be, in general, a rate which exceeds by 1.5% the Government of Canada 5-year benchmark bond yield, as published in the Bank of Canada Review in its Winter issue for the fiscal year regarding which the dividend is paid, for the Wednesday immediately preceding, or being, December 31 in the fiscal year regarding which the dividend is to be paid (Ref. B113893).

As a one-time event, the Board of Directors will meet to consider, and if thought appropriate, declare a Special Dividend to holders of the Class B Investment Shares, Series 1 within thirty days of issuance. The planned dividend rate for the Special Dividend on Class B Investment Shares, Series 1 is 5% of the purchase price of such shares. The Special Dividend will be paid out of profit earned in the 1997 fiscal year to the date on which the Special Dividend is paid, subject to meeting regulatory capital and other operational requirements. The Special Dividend is planned to be paid in the form of additional Class B Investment Shares, Series 1.

## Oshawa Community Credit Union Limited

### The Credit Union

Oshawa Community Credit Union Limited (“Oshawa Community” or the “Credit Union”) was incorporated February 16, 1952 to serve members of the Oshawa Central Study Group. In 1970, the Credit Union purchased the assets, and assumed the liabilities of Municipal Employees Credit Union Ltd., and changed its name to Oshawa Community Credit Union Limited. Throughout the 1970s and 1980s, the Credit Union purchased the assets, and assumed the liabilities, of several smaller credit unions, including General Printers, Peddlers & Reynolds, Firestone, Monarch Marking, and Federal Employees Credit Unions. Although the Credit Union now has a community bond, a large proportion of its membership comes from the municipal, provincial, and federal government employees in the Oshawa area; see page 21 for a discussion of the impact of this membership concentration on the Credit Union. As of December 31, 1996, the Credit Union had total assets of \$61,766,888, down from \$62,254,591 at December 31, 1995 but up from \$59,982,946 at December 31, 1994. Oshawa Community’s office is located at 214 King Street East, Oshawa, Ontario L1H 1C7 (phone: (905) 576-4200, fax: (905) 576-8579).

The Credit Union had accumulated a deficit of \$278,608 in 1981, which it eliminated at the end of 1984. It has since been building reserves, except for a loss of \$108,876 in 1992 and \$30,711 in 1993. Management attributes these losses mainly to non-performing loans resulting from a general economic recession, the proclamation of the current federal *Bankruptcy and Insolvency Act*, and credit-granting policies. Since 1993, the board’s credit granting policies have been reviewed and made more strict, policies are followed by all lenders in the organization, and loan losses have been reduced. Regulatory capital now amounts to approximately \$1,900,000; however, the Credit Union does not yet comply with regulatory capital requirements, enjoying a Leverage Ratio of 3.2% as of December 31, 1996.

Oshawa Community provides a broad range of financial services and products to approximately 5,700 members through its office in Oshawa, Ontario. The Credit Union provides a full range of retail financial services and a broad range of consumer credit and non-credit products. See “Business of Oshawa Community Credit Union Limited” on pages 7 to 9.

The Credit Union, in 1984 and 1985, purchased the property and constructed the building in which it is currently located. The Credit Union has 5,000 square feet for rent in the second floor of its building; this space is now vacant, and the Credit Union therefore experienced a decrease of \$104,622 in rental revenue in 1996, which rental income had previously represented a substantial portion of “other revenue” on the Credit Union’s income statement.

The Credit Union, in July, 1996, discovered a misappropriation of approximately \$112,491.17, which has resulted in criminal charges against the former Treasurer Manager of the Credit Union. As a result of the discovery of this misappropriation and the resulting investigation of the Credit Union’s loan portfolio, the Credit Union discovered loans which were either doubtful or required careful monitoring. As a result of the discovery of these doubtful or questionable loans, the Credit Union has increased its allowance for impaired loans by approximately \$200,000. This increase in the allowance for impaired loans directly impacted the Credit Union’s profitability for its 1996 fiscal year. See page 3 for a discussion of the misappropriation and page 29 for a discussion of the impact of the increase in the Credit Union’s allowance for impaired loans on its financial performance.

The Credit Union’s employees are unionized by the International Association of Machinists and Aerospace Workers. See page 28 for a discussion of the provisions contained in the collective agreement, which expires September 30, 1998.

## 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. Oshawa Community's bond of association now has a combination of employer-based and community-based boundaries, as fully described in paragraph 2.01 of its Bylaws, and as summarized below:

- People who reside or are employed within the boundaries of the City of Oshawa;
- Employees of Monarch Marking Systems, Pickering, Ontario;
- People employed by the Government of Canada and Canada Post in the City of Oshawa, Municipality of Clarington, the Towns of Whitby, Port Perry, Cobourg, Port Hope, and Lindsay, and the City of Peterborough; and
- Employees of the Credit Union.

Membership in Oshawa Community 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 Bylaws of the Credit Union. These Bylaws were revised effective April 4, 1995 to conform with the requirements of the *Credit Unions and Caisses Populaires Act, 1994* and to take advantage of certain new powers provided for in the Act. Specifically, the Bylaws now 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, the continuing membership of certain individuals who no longer qualify as members, an executive committee, an audit committee appointed by the Board, and procedures for issuing shares and holding shareholder meetings.

The membership Bylaw requires each member to own 20 Membership Shares with an aggregate issue price of \$100.

## Corporate Governance

The business of the Credit Union is directed and governed by its Board of Directors (the "Board"), a group of twelve individuals who are elected by the members of the Credit Union at the annual general meeting, with each director being elected for a three-year term on a staggered basis to provide for continuity of board members. The Board currently has one vacancy, as a result of the resignation of the former President for medical reasons. 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, including an Executive Committee which has an advisory function only. In particular, an Audit Committee has been formed and is composed of three directors of the Credit Union, elected by the Board annually. 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, rather than electing a Credit Committee, has determined that it should employ a loans officer to be responsible for considering all loan applications and approving or denying all loans, assisting all collection efforts, and acting upon members' applications for postponement or renegotiation of loan payments. 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 senior management, to whom it has delegated certain responsibilities according to Board policies. Oshawa Community's size and geographic concentration enable it to operate with a small senior management team

consisting of the Treasurer Manager, the Loan Manager, and the Administration Manager, who supervise 19 full-time and 4 part-time employees, the 4 part-time employees equating to 2.5 full-time positions. For the names, the municipality of residence, offices with the Credit Union and the present principal occupations of the directors and senior management of Oshawa Community as of the date of this Offering Statement, see "Directors and Senior Management" on pages 25 and 26.

The Treasurer Manager of the Credit Union resigned in September, 1996, as a result both of his ill health and of the discovery of the misappropriation detailed below, which has resulted in criminal charges being laid against him. At a Board meeting on August 13, 1996, the Board agreed that the Administration Manager, Ms. Lori Gaudette, should continue as Acting Treasurer Manager. The Credit Union has retained CUCO to assist in the recruitment of a new General Manager of the Credit Union; however, the recruitment is ongoing as of the date hereof. For details on Ms. Gaudette's experience, see page 26.

The Credit Union, in July, 1996, discovered a misappropriation of the sum of approximately \$112,491.17. Full restitution for the misappropriation, satisfactory to the Credit Union, has been made, and the former Treasurer Manager of the Credit Union, who faces criminal charges as a result of the misappropriation, is no longer in the employ of the Credit Union. The direct impact of this misappropriation on the financial performance of the Credit Union in the fiscal year ending December 31, 1996 was insignificant; however, the resultant review of the Credit Union's loan portfolio revealed several doubtful or questionable loans, and this discovery necessitated an increase of approximately \$200,000 in the Credit Union's allowance for impaired loans. The internal controls of the Credit Union have been reviewed, and management and the Board believe, on the advice of the Credit Union's auditor, that the weaknesses in those internal controls, which permitted the misappropriation, have been addressed; all lending limits have been removed from anyone who can alter the Credit Union's general ledger accounts, the external auditor deals directly with the audit committee, and the Credit Union has contracted with an experienced individual to conduct regular internal audits of the Credit Union's operations.

### **The Regulatory Framework**

*The Credit Unions and Caisses Populaires Act, 1994* (See also "Capital Adequacy," beginning on page 16)

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 Director of Credit Unions (the "Director") is charged with the responsibility of exercising certain powers and performing certain duties which are conferred or imposed by the Act. Among these duties, the Director monitors 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 Director, subject to such terms and conditions as he may impose. The Credit Union was, as of December 31, 1996, not in compliance with these minimum capital levels, having attained a Leverage Ratio of 3.2% when 4.25% was required, although it attained a Risk-Weighted Ratio of 7.1% when 7% was required.

The principal purpose of this Offering Statement is to raise sufficient regulatory capital both to comply with the Act and also to conform to sound business practices. Adequate capitalization would enable the Credit Union to conduct its operations without the restrictions and conditions which are imposed by any variation order. Conditions imposed by the Director in granting the capital adequacy variation which applied to the 1994 fiscal year, as a result of the Credit Union's non-compliance with capital adequacy requirements as at December 31, 1993, included the following:

- The Credit Union may not redeem Membership Shares, if the redemption would reduce the value of Membership Shares below 95% of the value of such shares as recorded on the December 31, 1994 financial statements of the Credit Union, which was \$542,525. Redemptions of Membership Shares

- will therefore be permitted unless the value of Membership Shares issued and outstanding falls below \$515,399.
- The Credit Union must provide a letter of undertaking, whereby the Board undertakes to the Director of Credit Unions and the Ontario Share and Deposit Insurance Corporation ("OSDIC"), which then performed the functions now performed by DICO, the following:
  1. The Credit Union will develop and implement further strategies to improve profitability significantly above the results of the previous two fiscal years, to comply more quickly with capital and surplus requirements. The Credit Union will monitor their 1994 budget, and revise its strategies if necessary to maintain throughout 1994 a return on assets of 49 basis points. The Credit Union should concentrate on increasing its financial margin, reducing exposure to changes in interest rates, increasing miscellaneous income, and ensuring the improved policies and procedures in the credit-granting and collection areas are followed. It is recommended that the Credit Union retain outside expertise, like CUCO, to assist in development and implementation of strategies.
  2. The Credit Union will provide to OSDIC the following information:
    - Monthly financial statements, including an explanation of any major budget variances;
    - Minutes of Board meetings;
    - Quarterly delinquency analysis; and
    - Quarterly matching analysis.
  3. All Board members will complete a director training program, like the Credit Union Directors Achievement program, covering directors' roles and responsibilities, financial management and analysis, planning and policy, risk management, legal responsibilities and the legislative environment.
  4. The Credit Union will complete the self-assessment questionnaire and submit it to the Ministry by September 30, 1994.
- The Credit Union will not pay any dividends until it is in compliance with regulatory capital requirements.
- The Credit Union requires the prior approval of the Director of Credit Unions for all capital expenditures, and commitments, including leases, in respect thereof, on property, and all other capital expenditures, and commitments, including leases, in respect thereof, totalling in excess of \$25,000. In its application for approval, the Credit Union must include a cost/benefit analysis estimating the impact of the expenditure on earnings and reserve-building.
- The Credit Union must include, in its application for a variation to apply to the 1995 fiscal year, an analysis of actual 1994 results, with commentary explaining significant variances from budgeted performance.
- The prior approval of the Director of Credit Unions is required for any asset growth in excess of the budgeted level of 3% annually for the balance of 1994 and 1995.

- The prior approval of the Director of Credit Unions is required for any encumbrances on the Credit Union's property.
- The application for a variance to apply for the 1995 fiscal year must be made by February 28, 1995.

The conditions were effective upon receipt of the above-noted letter.

In management's opinion, the Credit Union has complied with the terms of this capital adequacy variation order, which continues in force until a new variation order is received or until the Credit Union complies with all capital adequacy requirements. The Credit Union did, as required, apply for a new variation order, to apply to its 1995 and 1996 fiscal years, and, pending a response, it continues to comply with the above-noted variation order. The Credit Union has also, as required, applied for a further variation, to apply until it has completed the offering of securities contemplated hereunder and is in compliance with regulatory capital requirements, but has not, as of the date hereof, received a response from the Ministry of Finance.

Deposit Insurance Corporation of Ontario (See also "Regulatory Action," 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 taking control of the credit union or caisse populaire and replacing the existing directors, should circumstances so warrant. The Credit Union exceeds standards currently set by DICO for intervening in the Credit Union's operations. By letter dated September 23, 1996, DICO has imposed the following restrictions on the renewal of the Credit Union's deposit insurance for the period beginning May 1, 1996 and ending April 30, 1997:

- The Credit Union must submit to DICO monthly, no later than the 21st day of the next month, the following, evidenced as being in agreement with the Credit Union's accounting records and having been approved by the Board at the subsequent month's Board meeting:
  - i. financial statements prepared in accordance with generally accepted accounting principles;
  - ii. a budget variance analysis explaining variances in excess of 5% in the following categories:
    - a. financial margin;
    - b. miscellaneous income;
    - c. salaries and benefits expenses;
    - d. data costs;
    - e. occupancy costs;
    - f. loan costs;
    - g. other operating expenses; and
    - h. net income;
  - iii. minutes from Board and committee meetings held in the previous month, including the audit committee, credit committee or loans officer;

- iv. a listing of uninsured deposits;
  - v. analysis of delinquent loans, including a statement of whether or not the Credit Union complied with its lending policies in granting the loan; and
  - vi. a listing of all loans which have been rewritten;
- The Credit Union must report to DICO, on at least a monthly basis, of the progress of all major strategies, and, in particular, on the progress made on this offering of Class B Investment Shares, Series 1, to comply with the required Leverage Ratio and Risk Weighted Ratio;
  - The Credit Union must provide DICO with adequate notice of all Board and membership meetings, to enable a representative of DICO to attend;
  - The Credit Union must continue to develop and implement strategies to enable the Credit Union to comply with the required Leverage Ratio and Risk-Weighted Ratio by December 31, 1996, as projected by the Credit Union, and to monitor its business plan and revise its strategies if necessary to achieve its goals;
  - The Credit Union must comply with all capital adequacy variations issued by the Ministry;
  - If the Credit Union receives any independent assessment during the renewal period, the Credit Union must ensure that its auditor reviews its response to the report which results from the independent assessment, and writes directly to DICO within 120 days of the Credit Union's receipt of the report to confirm whether the Credit Union has satisfactorily addressed and resolved the weaknesses stated in the report;
  - The Credit Union must submit a written response by November 22, 1996, indicating the actions taken to resolve the issues raised in the auditors' management letter prepared after the audit of the Credit Union's financial statements as at December 31, 1995. The Credit Union will ensure that its auditors review its response and write directly to DICO within 120 days of the date of the response to confirm whether or not the Credit Union has satisfactorily addressed or resolved the auditors' concerns;
  - The Credit Union must ensure that future auditors' management letters address s.172 of the Act, which requires the auditors to report certain issues to the management of the Credit Union; and
  - The Credit Union must report to DICO any actual or anticipated event which is likely to have a material impact on the Credit Union's financial condition and increase DICO's insurance risk.

DICO reserves the right to impose further conditions as a result of any change in circumstances during the renewal period. In management's opinion, the Credit Union has complied with these conditions.

### **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 380 member credit unions. Oshawa Community is one of those member-owners. CUCO is not a retail banking institution; its key financial roles are management of the provincial liquidity reserves 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 centralized cheque clearing and 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.

To retain membership in CUCO, the Credit Union must purchase shares in CUCO valued at 1.25% of its membership shares and members' deposits, maintain a liquidity deposit at CUCO equal to 5% of its Membership Shares and members' deposits, and pay membership dues and advertising assessments potentially equal to \$4.50 per adult member annually, but currently equal to \$3.65 per adult member annually. The Credit Union is in compliance with these requirements.

## **BUSINESS OF OSHAWA COMMUNITY CREDIT UNION LIMITED**

### **General Description of the Business**

#### **Personal Financial Services**

The three senior managerial staff, together with the 19 full-time and 4 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, and registered retirement income funds. The registered accounts are administered and held by the Credit Union, and the trustee is Co-operative Trust Company of Canada. Other products available to all members include safety deposit boxes, travellers' cheques, payment cards (direct debit), and Canada Savings Bond services. Oshawa Community, as a member of Credit Union Central of Ontario, is linked to the Interac and PLUS System networks (links between the automated banking machines of numerous financial institutions, so that the Credit Union's members may use automated banking machines not owned and operated by the Credit Union) through Credit Union Central of Canada, giving members access to their accounts at automated banking machines ("ABMs") worldwide.

The Credit Union, in addition to the traditional personal service in its office, offers its members the choice of accomplishing transactions at an ABM located in the vestibule of its office.

The Credit Union is licensed by the Ministry of Finance (Ontario) to offer personal loans and residential mortgage loans. The Board has approved, and management follows, lending policies in all areas to minimize the risk of loan losses; these policies were approved by the Board in August 1995, and the Credit Union's auditor notes significant improvement in the content of the Credit Union's loan files since adoption of the new stricter policies. Policies are now, as well, carefully followed by all lenders in the Credit Union.

#### **Personal Loans**

Personal loans to members comprise instalment loans, demand loans, and lines of credit. Oshawa Community does not offer a credit card to its members.

The Credit Union had, as of December 31, 1996, an allowance for impaired loans on its personal loan and line of credit portfolio equal to 4.57% of total personal loans and lines of credit outstanding; of such loans and lines of credit, 5.6% have been recognized by the Credit Union as impaired. This significantly exceeds the level

of bad debt allowance and impaired loans seen throughout the credit union system and among the Credit Union's peers. Management attributes this high allowance for bad debts and high level of impaired loans to its policy of continuing to carry impaired loans, particularly in a bankruptcy, on its books until all possibilities of recovery are exhausted, and to the increase in its allowance for impaired loans as a result of its review of its loan portfolio following the misappropriation discussed on pages 1 and 3 hereof.

At December 31, 1996, Oshawa Community had a personal loan portfolio of \$10,855,520, representing 21.36% of total loans outstanding, and a line of credit portfolio of \$498,892, representing .98% of total loans outstanding.

### **Residential Mortgages**

Oshawa Community competes for the residential first mortgages of its members. It grants mortgages to members according to conventional mortgage lending standards for residential property. Oshawa Community offers closed, fixed-rate mortgages; open, variable-rate mortgages; and open, fixed-rate mortgages; written with terms of one year to five years. Approximately 98% of Oshawa Community's mortgage portfolio is represented by conventional residential first mortgages; the balance consists of high-ratio residential first mortgages insured by Canada Mortgage and Housing Corporation.

At December 31, 1996, residential mortgage loans represented 75.13% of total loans outstanding, and totalled \$38,179,985.

### **Commercial Lending**

As a result of the Credit Union's review of its loan portfolio following its discovery of the misappropriation detailed at pages 1 and 3 hereof, the Credit Union discovered that it had granted residential mortgages on non-owner-occupied property. These mortgages, due to changes in the Act, are now considered to be commercial mortgages. The Credit Union does not have a licence to make commercial loans. The Credit Union has applied to the Ministry of Finance, by correspondence dated November 15, 1996, for permission to continue holding and administering these mortgages until repayment, and this permission has been granted verbally by the Ministry of Finance. The Credit Union may not grant any new mortgages of this type unless and until the Credit Union receives a commercial lending license.

As of December 31, 1996, the Credit Union had \$1,283,786 outstanding in such commercial mortgages, amounting to 2.53% of total loans outstanding.

### **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 Membership Shares and members' deposits; the Credit Union is in compliance with this requirement.

#### **Information Technology**

The financial transactions of the Credit Union's members are processed by Co-operator's Data Services Limited ("CDSL"). The Credit Union's agreement with CDSL to provide these services, and a license to use the

necessary computer software, effective December 1, 1995, expires November 30, 2000. See page 28 for further details.

CDSL also provides the Credit Union with on-line electronic funds transaction services, including access to Interac and other similar networks of automated banking machines in Canada and the United States. See also page 28.

### **Business Strategy**

The Board seeks to direct a financially-sound, family-oriented, community-based credit union which is the primary financial institution of its members. The Credit Union seeks to retain its status as a mid-sized credit union in Ontario; it is anticipated that growth will be achieved through providing more services to existing members, through increased penetration of the existing bond of association, or through mergers with or acquisitions of other credit unions.

Ultimately, the Credit Union intends to position itself to deliver a larger portion of the financial service needs of a greater percentage of its total membership, making it possible to strengthen its relationship with each member and also to attract new members to the Credit Union. It seeks to accomplish this by offering its members the option of telephone banking and bill payment, and the opportunity to use brokerage and mutual fund services provided by the Credit Union. In this, the Credit Union particularly seeks to market itself to younger members.

## **CAPITAL STRUCTURE OF THE CREDIT UNION**

Prior to April 4, 1995, Oshawa Community's authorized capital consisted of an unlimited number of Membership Shares, as this was the only class of share that was legally permitted to be issued under the former credit union legislation. On April 4, 1995, the Credit Union received Board and member approval to expand the authorized capital of the Credit Union, and subsequently filed Articles of Amendment to create an unlimited number of Class A Special Shares ("Class A Profit Shares"), and an unlimited number of Class B Special Shares ("Class B Investment Shares"), the Class B Shares being issuable in series.

### **Membership Shares**

Membership Shares are issued at \$5 each, the price established by the Board of Directors, to persons who wish to become members of Oshawa Community. Pursuant to the Bylaws of Oshawa Community, each member must hold twenty Membership Shares. Each member aged 16 years and over is entitled to one vote on resolutions of the members or in the election of directors at annual general meetings. Only members may take certain actions, like electing the Board of Directors. Pursuant to the Act, the Bylaws of Oshawa Community can be changed by special resolution of the members.

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

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," beginning on page 16). If a member holds Membership Shares, and also holds Class A Profit Shares and/or Class B Investment Shares, Series 1, the member will not be permitted to redeem his Membership Shares until either the Credit Union redeems his Class A Patronage Shares and Class B Investment

Shares, Series 1, or the member transfers his Class A Patronage Shares and Class B Investment Shares, Series 1 to another member of the Credit Union.

Membership Shares are not transferable between members.

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 or shareholders for the purpose of winding-up its affairs, the holders of the Membership Shares shall each be entitled to receive an amount representing an equal portion 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 Profit Shares and Class B Investment Shares, Series 1.

The Credit Union has a lien on the Membership Shares of each member for any indebtedness of the member to the Credit Union.

As at December 31, 1996, there were 104,709 issued and outstanding Membership Shares with a total stated value of \$523,545.

### **Class A Profit Shares**

The Credit Union is authorized to issue an unlimited number of Class A Special Shares ("Class A Profit Shares").

Class A Profit Shares may be held only by members of the Credit Union. A member wishing to withdraw from the Credit Union will be required to redeem all Class A Profit Shares held by him, or transfer all Class A Profit Shares he holds to another member of the Credit Union, before he will be permitted to redeem his Membership Shares in the Credit Union.

Class A Profit Shares will be used to pay patronage returns to members of the Credit Union, or to pay dividends on Class A Profit Shares. The Board has not approved any policy regarding how any patronage returns will be calculated. The Credit Union will issue one Class A Profit Share for each whole dollar in dividends or patronage returns to which the shareholder is entitled; Class A Profit Shares will be issued for deemed consideration of \$1.00 per share. No fractional shares will be issued.

Holders of Class A Profit Shares are entitled to non-cumulative dividends, to be declared by the Board at a rate determined by the Credit Union's dividend policy from time to time. The dividend policy currently is to pay an annual dividend of 5% of the issue price of such shares. Dividends shall be paid in the form of additional Class A Profit Shares, or in the form of cash, or partly in shares and partly in cash, as determined by the Board at the time it determines the rate for such dividends. The Board may declare a partial dividend, or no dividend, for any particular fiscal year of the Credit Union. The Board may not declare a dividend at any time when the Credit Union is, or the payment of the dividend would cause it to be, not in compliance with the capital adequacy requirements of the Act.

The Class A Profit Shares rank senior to the Membership Shares, but junior to the Class B Investment Shares, Series 1, in respect of dividends.

In the event of liquidation or dissolution of the Credit Union, or any other distribution of its assets for the purpose of winding-up its affairs, holders of Class A Profit Shares are entitled to receive the Redemption Amount for each Class A Profit Share held. Class A Profit Share Redemption Amounts will be paid in priority to the Membership Shares, but after provision for payment of all the Credit Union's other debts and obligations, including the redemption of any other securities which may rank senior to the Class A Profit Shares. Holders of Class A Profit Shares are not thereafter entitled to participate in the distribution of residual assets of the Credit Union.

Class A Profit Shares are redeemable at the Redemption Amount when the holder turns sixty-five years of age, terminates his membership in the Credit Union, or dies. The shareholder must make a written request to the Credit Union to redeem all or any of the Class A Profit Shares he then holds. The Credit Union will not redeem the Class A Profit Shares if the Credit Union is, or the redemption would cause it to be, not in compliance with capital adequacy requirements. In no event shall the Credit Union redeem, in any one fiscal year, more than 10% of the Class A Profit Shares issued and outstanding at the end of the previous fiscal year. Redemptions will be considered by the Board at its meeting in the month following receipt of the written request for redemption. Redemption requests will be considered on a first-come, first-served basis; requests which cannot be honoured in one fiscal year shall be considered to have been received in the first month of the following fiscal year, and be the first such requests considered in the following fiscal year.

The Credit Union may also redeem, at the Redemption Amount, all or any part of the issued and outstanding Class A Profit Shares, at any time following a date which is five years after the issuance of such shares, by providing at least 21 days' notice of the redemption.

The Class A Profit Shares are non-voting for the purposes of annual general or special meetings of the members. In the event of a proposed dissolution or amalgamation, or the 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 Oshawa Community, or if there is a proposed resolution which affects the rights attaching to the Class A Profit Shares, the Credit Union must hold a special meeting of the holders of Class A Profit Shares to obtain their approval of the proposed action by Special Resolution. Holders of Class A Profit Shares have one vote per Class A Profit Share held at such meetings held to consider such a Special Resolution.

Pursuant to its Bylaws, Oshawa Community has a lien on all Class A Profit Shares held by a member, to the extent of that member's indebtedness to the Credit Union.

There are no Class A Profit Shares issued or outstanding as of the date of this Offering Statement.

### **Class B Investment Shares**

The Credit Union is authorized to issue an unlimited number of Class B Special Shares ("Class B Investment Shares"), in series. For a discussion of the attributes of these shares, see "Description of Securities Being Offered" below.

There are no Class B Investment Shares issued or outstanding as of the date of this Offering Statement.

## **DESCRIPTION OF SECURITIES BEING OFFERED**

### **Class B Investment Shares, Series 1**

#### **Holders**

Class B Investment Shares, Series 1 may only be issued to and held by persons who are members of the Credit Union and who, if the purchaser is a natural person, have attained the age of eighteen years. Members wishing to withdraw from membership in the Credit Union, but holding Class B Investment Shares, Series 1, will not be permitted to redeem their Membership Shares until either the Credit Union redeems the Class B Investment Shares, Series 1 they hold, or the members transfer the Class B Investment Shares, Series 1 they hold to other members of the Credit Union.

## Issue

Class B Investment Shares, Series 1 may be issued in series. Class B Investment Shares, Series 1 are issuable at \$1 each. No fractional shares will be issued. Shares must be fully paid for before issue.

## Dividends

The holders of Class B Investment Shares, Series 1 are entitled, in preference to the Membership Shares and the Class A Profit Shares, to receive non-cumulative dividends if, as and when declared by the Board. Dividends for the Class B Investment Shares, Series 1 are dependent upon, in part, the earnings and/or retained earnings of Oshawa Community, 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" beginning on page 16). The payment of such dividends will be in such manner (including whether in the form of additional Class B Investment Shares, Series 1, or in cash, or partly in shares and partly in cash), and on such terms as may be determined from time to time by the Board. Class B Investment Shares, Series 1 allotted as part of a declared dividend will only be issued in whole dollar amounts (rounded down to the nearest dollar), and no fractional shares will be issued.

For a discussion of the Credit Union's dividend policy on the Class B Investment Shares, Series 1, see pages 21 and 22.

## Canadian Federal Income Tax Aspects

The following commentary has been prepared by Tinkham & Associates, 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 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 Revenue Canada in connection with this Offering Statement, and there is therefore the risk that Revenue Canada 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.**

Investors who acquire one or more Class B Investment Shares, Series 1 will be required to include in income the dividends paid on the shares, whether paid in cash or in the form of additional shares, including the Special Dividend. This income is considered to have been received, for income tax purposes, as interest income from Canadian sources and not as dividend income.

Dividends paid in the form of additional Class B Investment Shares, Series 1 will be considered a stock dividend for tax purposes. On the basis that the Credit Union will add to the stated capital of the Class B Investment Shares, Series 1 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. Revenue Canada 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.

The Class B Investment Shares, Series 1 will be a qualified investment for RRSP contracts. The transfer of any shares by a holder to an RRSP constitutes a disposition of the shares by the holder for income tax purposes. In such circumstances the holder is deemed to receive the proceeds of disposition for the shares equal to their fair market value at that time of such transfer, and this amount is included in computing the capital gain or loss from the disposition. Any capital loss arising on such disposition is denied to the shareholder. Interest expense related to shares transferred to an RRSP is not deductible for income tax purposes.

#### Oshawa Community 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, Series 1 as contributions to a members' Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF).

#### Rights on Distributions of Capital

On liquidation or dissolution, holders of Class B Investment Shares will be paid the Redemption Amount in priority to the Membership Shares, and in priority to the Class A Profit Shares, but after provision for payment of all the Credit Union's other debts and obligations. Holders of Class B Investment Shares, Series 1 shall not thereafter be entitled to participate in the distribution of the Credit Union's assets then remaining.

#### Redemption Provisions and Restrictions

Holders of Class B Investment Shares, Series 1 may make a request to the Board, in writing, to redeem, at the Redemption Amount, their Class B Investment Shares, Series 1 held.

The Board will deal with all of such requests made in any calendar month, at their meeting occurring in the following calendar month. Redemptions will occur on dates set by the Board, which shall not be more than thirty days after the requests are considered and approved by the Board.

The Board will ordinarily approve such requests unless, in the opinion of the Board, such redemption will cause the Credit Union to be unable to comply with the capital requirements of section 84 of the Act. In no case shall total redemptions approved for holders of Class B Investment Shares, Series 1 in any fiscal year exceed an amount equal to 10% of the total Class B Investment Shares, Series 1 outstanding at the end of the previous fiscal year.

When such redemption requests are approved, they shall be 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 will be deemed to have been received in the first month of the following fiscal year and shall be the first such requests considered in the following fiscal year.

Because of the above-noted redemption restrictions, the Credit Union must treat the Class B Investment Shares, Series 1 which could be redeemed in any fiscal year (i.e. 10% of the Class B Investment Shares, Series 1 issued and outstanding at the beginning of that fiscal year) as less permanent, and therefore less desirable as capital ("Tier II Capital"), than the Class B Investment Shares, Series 1 which cannot be redeemed in that fiscal year ("Tier I Capital"). In the unlikely event that Tier II Capital exceeds Tier I Capital, the Credit Union cannot consider the excess of Tier II Capital over Tier I Capital to be regulatory capital.

The Credit Union has the option of redeeming, at the Redemption Amount, the Class B Investment Shares, Series 1, 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.

**Purchasers of Class B Investment Shares, Series 1 who are intending to include such shares in an RRSP or RRIF contract should carefully review the above redemption provisions and restrictions before proceeding.**

### Voting Rights

The Class B Investment Shares, Series 1 are non-voting for the purposes of annual general or special meetings of the members. 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 Oshawa Community, the Credit Union may hold a special meeting of the holders of Class B Investment Shares, Series 1 to seek their approval of the action by Special Resolution. In some cases, separate meetings of the holders of each series of Class B Shares will be required. The holders of Class B Investment Shares shall have one vote per Class B Investment Share held at such meetings.

### Modification

Modification of the provisions attached to Class B Investment Shares, Series 1 will require the approval by Special Resolution of the members voting at a special or annual general meeting, and the approval of the holders of Class B Investment Shares, Series 1. The approval of Class A Profit Shareholders may also be required if their rights as holders of a junior class of shares are affected. Such shareholder approval will be expressed by a Special Resolution of the holders of the Class B Investment Shares, Series 1 present at a separate meeting of such shareholders, with each shareholder having one vote per Class B Investment Share held. The approval of Class A Profit Shareholders, if required, will be evidenced in a similar manner.

### Restrictions on Transfer

Class B Investment Shares, Series 1 may not be transferred except to another member of Oshawa Community, or to a person prescribed in the Act and accompanying Regulations. Transfers will be subject to the approval of the Board of Directors expressed by majority vote of the Board or by an instrument in writing signed by a majority of Board members. 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. Class B Investment Shares, Series 1 will be transferred to other members at a price equal to the current Redemption Amount.

No member, through transfers of Class B Investment Shares, Series 1 from other members, will be allowed to hold more Class B Investment Shares, Series 1 than the member would otherwise have been able to subscribe for in this initial offering (50,000). **There is no market for the Class B Investment Shares, Series 1 issued by the Credit Union.**

### Articles of Amendment

Prospective purchasers of Class B Investment Shares, Series 1 may obtain, on request at the Head Office of the Credit Union, a copy of the Special Resolution of the membership, and the Resolution of the Board of Directors which amended Oshawa Community's Articles of Incorporation and define its share capital structure, including the full terms and conditions, rights and privileges of Class B Investment Shares, Series 1.



## CAPITALIZATION TABLE

The capitalization of the Credit Union as at December 31, 1995, as at December 31, 1996, and as at December 31, 1996 after giving effect to the full issuance of the Class B Investment Shares, Series 1 and the proposed 5% Special Dividend, is set out in the following table:

	As at <u>December 31,</u> <u>1995</u>	As at <u>December 31,</u> <u>1996</u>	As at <u>December 31,</u> <u>1996</u> , after giving effect to the full issuance of the Class B Investment Shares, Series 1 and Special Dividend
	(audited)	(audited)	(unaudited)
<b>TIER I CAPITAL</b>			
<b>Share capital</b>			
Membership Shares	\$535,725	\$523,545	\$523,545
Class B Investment Shares, Series 1	\$0	\$0	\$1,854,904  (90% of 2,000,000 shares, net of offering costs and tax savings, plus Special Dividend)
<b>Reserves</b>	<u>\$1,389,434</u>	<u>\$1,427,381</u>	<u>*\$1,327,381</u>
<b>Total Tier I Capital</b>	<u>\$1,925,159</u>	<u>\$1,950,926</u>	<u>\$3,705,830</u>
<b>TIER II CAPITAL</b>			
Class B Investment Shares, Series 1	<u>\$0</u>	<u>\$0</u>	<u>\$206,101</u>  (10% of 2,000,000 shares, net of offering costs and tax savings, plus Special Dividend)
<b>Total Tier II Capital</b>	<u>\$0</u>	<u>\$0</u>	<u>\$206,101</u>
<b>TOTAL REGULATORY CAPITAL</b>	<u>\$1,925,159</u>	<u>\$1,950,926</u>	<u>\$3,911,931</u>

\* The Special Dividend is shown as being paid from Reserves for illustrative purposes only.

These items, although treated as capital for regulatory purposes, may not be treated as equity 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's obligation is 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. These changed rules come into effect with the Credit Union's December 31, 1997 financial statements.

## RISK FACTORS

The following risk factors should be considered in making a decision to purchase Class B Investment Shares, Series 1.

### Transfer and Redemption Restrictions

**There is no market through which the Class B Investment Shares, Series 1 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 Directors 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. Further, redemptions are limited in any fiscal year to 10% of the Class B Investment Shares, Series 1 outstanding at the beginning of that fiscal year. Consequently, holders of Class B Investment Shares, Series 1 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, Series 1 within an RRSP or RRIF contract should carefully consider this risk factor before proceeding.**

### Capital Adequacy

The Act requires Oshawa Community to maintain certain levels of regulatory capital according to its risk-weighted assets (i.e., actual assets multiplied by a percentage, set by Regulation, to approximate the risk associated with those assets) ("Risk-Weighted Ratio") and its actual assets ("Leverage Ratio") as follows:

	RISK-WEIGHTED RATIO	LEVERAGE RATIO
as of January 1, 1996	7.0% (6.2% attained)	4.25% (3.1% attained)
as of January 1, 1997	7.5% (7.1% attained)	4.6% (3.2% attained)
as of January 1, 1998 and thereafter	8.0%	5.0%

The Credit Union is required to maintain the minimum capital ratios set out above on a continuous basis throughout the periods until the ratios increase to the next level.

As of December 31, 1996, Oshawa Community maintained a Risk-Weighted Ratio of 7.1% and a Leverage Ratio of 3.2% and, accordingly, was not in compliance with Section 84 of the Act regarding its Leverage Ratio. As of the date of this Offering Statement, Oshawa Community does not meet the Act's capital adequacy requirements. If this offering raises the maximum \$2,000,000 in capital, and the Credit Union deducts its costs of making this offering (net of tax savings) from the stated capital of the Class B Investment Shares, Series

1, the Credit Union will comply with all current regulatory capital requirements, and will enjoy a Leverage Ratio, assuming the amount of assets as stated in the Credit Union's December 31, 1996 financial statements and assuming that the Special Dividend was paid from the Credit Union's reserves as stated in the same financial statements, of 6.33%.

If this offering is minimally subscribed, however, assuming the same conditions, the Credit Union would enjoy a Leverage Ratio of 5.04%. The Credit Union, as of January 1, 1998, is required to maintain a Leverage Ratio of 5%. If the Credit Union closes the offering with only the minimum subscription, there is a risk that the Credit Union may find itself not in compliance with regulatory capital requirements, and be unable to pay dividends or redeem Class B Investment Shares, Series 1 without offering for sale additional risk capital.

The Director of Credit Unions is empowered to specify terms and conditions with which the Credit Union must comply while its regulatory capital does not meet the minimum levels specified in section 84 of the Act. See pages 3, 4, and 5 for a discussion of the conditions imposed by the Director of Credit Unions in granting Oshawa Community a variation of these requirements for its 1994 fiscal year, as a result of its non-compliance with capital adequacy requirements as at December 31, 1993.

### **Payment of Dividends**

This is the initial offering of Class B Investment Shares, Series 1 and, accordingly, there is no dividend record for the Class B Investment Shares, Series 1. The payment of dividends to the holders of Class B Investment Shares, Series 1 is dependent on the ability of Oshawa Community to meet the capital adequacy requirements of the Act, the availability of earnings, and the exercise by the Board of Directors of the Credit Union 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 dividends.

The dividend policy of the Board, as expressed on pages 21 and 22 hereof, is subject to change at any time at the discretion of the Board.

### **Credit Risk**

The major activity of Oshawa Community 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, Series 1 when the members wish it to do so. The loan portfolio at December 31, 1995 and at December 31, 1996, segregated into those classes of loans which are defined in the Regulations to the Act, and the activity in the allowance for impaired loans for the fiscal years ended December 31, 1995 and December 31, 1996, are detailed below.

Loans by Classification	December 31, 1995 (Audited)	December 31, 1996 (Audited)
Mortgage	\$34,112,748	\$38,179,985
Personal and Line of Credit	\$14,860,868	\$11,354,412
Commercial Mortgages	\$0	\$1,283,786
Less Allowance for Impaired Loans	( <u>\$416,687</u> )	( <u>\$615,327</u> )
	<u>\$49,191,929</u>	\$50,202,856

DECEMBER 31, 1995 (Audited)	PERSONAL	MORTGAGE	TOTAL
Balance, Beginning of period	\$497,617	\$24,857	\$522,474
Recovery on loans previously written-off	\$14,230	\$14	\$14,244
Loans written-off as uncollectible	<u>(\$224,466)</u>	<u>(\$13,704)</u>	<u>(\$238,169)</u>
Balance before provision	<u>\$287,382</u>	<u>\$11,167</u>	<u>\$298,549</u>
Provision for doubtful loans	\$47,139	\$16,000	\$63,139
Provision for doubtful loans - nonspecific *	<u>\$55,000</u>	<u>\$0</u>	<u>\$55,000</u>
Balance, end of period	<u>\$389,520</u>	<u>\$27,167</u>	<u>\$416,687</u>

DECEMBER 31, 1996 (Audited)	PERSONAL	MORTGAGE	TOTAL
Balance, Beginning of period	\$389,520	\$27,167	\$416,687
Recovery on loans previously written-off	\$1,872	\$0	\$1,872
Loans written-off as uncollectible	<u>(\$147,197)</u>	<u>(\$0)</u>	<u>(\$147,197)</u>
Balance before provision	<u>\$244,195</u>	<u>\$27,167</u>	<u>\$271,362</u>
Provision for doubtful loans	<u>\$275,028</u>	<u>\$68,937</u>	<u>\$343,965</u>
Balance, end of period	<u>\$519,223</u>	<u>\$96,104</u>	<u>\$615,327</u>

\* This allowance was intended to deal with a number of loans which had been identified as potentially impaired, but which were not, at December 31, 1995, delinquent.

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.

Oshawa Community 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 Oshawa Community's impaired loan exposure at December 31, 1995 and December 31, 1996, net of the related allowance for loan losses:

	December 31, 1995 (Audited)	December 31, 1996 (Audited)
<b>Impaired loans</b>		
Personal loans and Lines of Credit	\$567,010	\$636,275
Mortgage loans	<u>\$281,102</u>	<u>\$643,192</u>
Total impaired loans	\$848,112	\$1,279,467
Less allowance for loan losses	<u>(\$416,687)</u>	<u>(\$615,327)</u>
Net impaired loans	<u>\$431,425</u>	<u>\$664,140</u>

	December 31, 1995 (Audited)	December 31, 1996 (Audited)
Total impaired loans as a percentage of gross loans to members	1.7%	2.58%
Impaired personal loans and lines of credit as a percentage of gross personal loans and lines of credit	3.67%	5.6%
Impaired mortgages as a percentage of gross mortgages	.82%	1.68%

Each of the above percentages compares the Credit Union's impaired loans to all loans which the Credit Union has made, and indicates the extent to which the Credit Union is experiencing a problem with poor loans. These percentages indicate the Credit Union has a significant number of impaired personal loans; management attributes this to the Credit Union's policy of not "writing off" a loan until all recovery possibilities have been exhausted, and to the results of the review of the Credit Union's loans conducted after discovery of the misappropriation discussed on pages 1 and 3 hereof. Loans written off as uncollectible during the fiscal years ended December 31, 1995 and December 31, 1996, were \$238,169 and \$147,197, respectively. Bad debt expense for the same periods was \$118,139 and \$343,965, respectively. The allowance for doubtful loans was .84% of total loans outstanding at December 31, 1995 and 1.21% of total loans outstanding as of December 31, 1996.

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

The Credit Union is also exposed to risk in respect of its investments. The investment policy approved by the Board of the Credit Union requires that the Credit Union, after meeting the loan demand of its membership and all statutory liquidity requirements, make investments considering the safety of principal, return on its investments, match of its assets with its liabilities, needs of the credit union system, and social, economic, and ethical well-being of the community. The policy authorizes the Treasurer-Manager to invest excess liquidity with CUCO, in equity and debt of Canadian chartered banks, and in provincial and federal treasury bills. No one or more investments in a single chartered bank shall exceed \$500,000, and shall not be for a term longer than three years. Investments outside CUCO shall not, in the aggregate, exceed \$3,000,000 or 50% of excess liquidity, whichever is less. No single term deposit at CUCO shall exceed \$3,000,000. No one or more term deposits in excess of \$1,000,000 shall be invested for more than one year. Maturity dates shall be staggered so that income and matching concerns are addressed. As of December 31, 1996, all excess funds of the Credit Union were invested with CUCO. There is a risk that poor financial performance, or some other aspect of the performance of an entity in which the Credit Union invests, may prevent the Credit Union from realizing its investments at a value equal to or exceeding their acquisition cost, in cash, in the time frame in which the Credit Union desires to realize its investment.

#### **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 borrowing in prescribed classes of assets pursuant to Regulations to the Act. The Credit Union has a policy of not permitting its liquidity to fall below 12% without taking corrective action. It

maintained an average liquidity position of 17.68% in its fiscal year ending December 31, 1995, and of 15.74% in the fiscal year ended December 31, 1996.

### **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 the Board of Directors. Regulations require that the Credit Union expose no more than 15 basis points of its total assets to a reasonably-anticipated change in interest rates, "reasonably-anticipated" usually being defined as a 1% change. The Credit Union's Board Policy limits, which do not comply with, but are stricter than, the Regulations, require management to maintain a matched asset/liability position which will expose no more than \$50,000 of the Credit Union's annual forecasted net income to reasonably anticipated fluctuations in interest rates; \$50,000 amounted to approximately 8 basis points of the average level of the Credit Union's total assets in its 1995 fiscal year. To achieve this matched position, the Credit Union uses a comprehensive set of financial reporting systems, including computerized modelling techniques. 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, 1996, the Credit Union's matching analysis indicated that a change in interest rates of 100 basis points (1%) would have exposed the net income equivalent of 4 basis points of the total assets of the Credit Union to that fluctuation.

In the event that the Credit Union was to become mismatched to an extent which exceeds the limits described above, future profitability could become seriously 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 Director of Credit Unions 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. See pages 5 and 6 for a discussion of the conditions imposed on the most recent renewal of the Credit Union's deposit insurance by DICO. The Credit Union's Leverage Ratio exceeds the current level at which DICO will consider intervention in the Credit Union's operations.

The Credit Union discovered in July, 1996, a misappropriation of the sum of approximately \$112,491.17. Full restitution for the misappropriation, satisfactory to the Credit Union, has been made, and the former Treasurer Manager, who faces criminal charges as a result of the misappropriation, is no longer in the employ of the Credit Union; the direct impact of this misappropriation on the Credit Union's financial performance in the fiscal year ending December 31, 1996 was insignificant, but a review of the Credit Union's loan portfolio following the misappropriation discovered both doubtful and questionable loans necessitating an increased allowance for impaired loans, and also a commercial mortgage portfolio which required the approval of the Ministry of Finance for the Credit Union to continue to hold and administer until repayment (which approval has been verbally granted). The internal controls of the Credit Union have been reviewed, and management and the Board believe, on the advice of the Credit Union's auditor, that the weaknesses in those internal controls which permitted the misappropriation have been addressed. Management does not believe further regulatory action against it, as a result either of this misappropriation or the portfolio of commercial mortgages which it now has the verbal permission of the Ministry of Finance to hold and administer until repayment, by either the Ministry of Finance or DICO, is likely; however, the possibility of such action does exist.

## **Reliance on Key Management**

The success of Oshawa Community's business strategy is dependent on the ability of the Credit Union to retain its key senior management personnel. The inability to retain such persons, or replace them with individuals of equal competence, could adversely affect the Credit Union's financial performance. The Credit Union does not have in place written employment agreements covering the services of any key management personnel.

The Treasurer Manager of the Credit Union resigned in July, 1996, as a result both of ill health and also of the discovery of the misappropriation discussed at page 20 under the heading of "Regulatory Action", regarding which he now faces criminal charges. At a Board meeting August 13, 1996, the Board agreed that the Administration Manager, Ms. Lori Gaudette, should continue as Acting Treasurer Manager. The Credit Union has retained CUCO to assist in the recruitment of a new General Manager of the Credit Union; this recruitment is ongoing at this time. For details on Ms. Gaudette's experience, see page 26.

## **Geographic/Industry Risk**

The Credit Union, despite its community bond, continues to draw a substantial portion of its membership base from among employees of the municipal, provincial and federal government offices in Oshawa. Approximately 1,155 of its members are employed by these agencies, amounting to approximately 20% of the Credit Union's membership. Recent government deficit-cutting measures make it a matter of potential concern that such a significant percentage of its membership is employed by government agencies.

The Credit Union, with only approximately 2% of its membership employed by General Motors of Canada, was relatively unaffected by the strike action which resulted from contract negotiations with the three large vehicle manufacturers in September 1996.

In general, the economy of the City of Oshawa is improving. Real estate sales are improving, as indicated by a growing number of CMHC-insured mortgages to first-time home-buyers; development is increasing in the Whitby-Oshawa-Courtice area. Unemployment is approximately 10% or 11%. Oshawa is a bedroom community for Toronto, with easy access to the amenities of the Metro Toronto area.

## **Competitive Risk**

The financial services industry in Oshawa is an extremely competitive one, with all major banks and trust companies represented and another major credit union also competing in the market. The competitive advantages enjoyed by Oshawa Community include personalized service, a central location, free and ample parking, convenient hours, and competitive rates and service charges. Oshawa Community enjoys a market share of approximately 4.38%, when comparing its membership to the population of its trading area (approximately 130,000).

## **DIVIDEND RECORD AND POLICY**

Prior to the recent creation of the current classes of shares, Oshawa Community's formal capital structure consisted only of Membership Shares on which dividends could be paid. As a result of the Credit Union not meeting the capital adequacy requirements set out in predecessor legislation to the Act, it has not been able to pay dividends on Membership Shares, as outlined in the following table:

Issued and Outstanding Membership Shares	Fiscal Year Ending	Dividend Paid
\$523,545	December 31, 1996	\$0
\$535,725	December 31, 1995	\$0
\$542,525	December 31, 1994	\$0
\$298,195	December 31, 1993	\$0
\$304,185	December 31, 1992	\$0

For a discussion of priority in the payment of dividends and the factors on which payment of dividends depend, see page 12.

The dividend policy of the Oshawa Community Board of Directors for Class B Investment Shares, Series 1 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 of Directors, 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 of Directors has defined an appropriate dividend rate on the issue price of the share to be a rate which exceeds by 1.5% the Government of Canada 5-year benchmark bond rate, as published in the Bank of Canada Review in its Winter issue for the fiscal year regarding which the dividend is paid (Ref.B113893), for the Wednesday immediately preceding, or being, December 31 of the fiscal year regarding which the dividend is paid. The dividend, for the year Class B Investment Shares, Series 1 are first issued, shall be prorated for the number of days the shares were issued and outstanding in the fiscal year.

The Credit Union will instruct its staff to make available on request to holders of Class B Investment Shares, Series 1 a calculation of the applicable dividend rate at that time.

Following consideration and payment of a dividend on the Class B Investment Shares, Series 1, the Board may decide to pay a dividend on shares ranking junior to the Class B Investment Shares, Series 1, including Class A Profit Shares and Membership Shares.

As a one-time event, the Board of Directors plans to meet to consider, and, if thought appropriate, declare a Special Dividend to holders of the Class B Investment Shares, Series 1 within thirty days of issuance. The planned dividend rate for this Special Dividend is 5% of the principal amount of Class B Investment Shares, Series 1 held, and it will be paid out of profits earned in the 1997 fiscal year to the date on which the dividend is paid, subject to meeting regulatory capital and other operating requirements. The dividend is planned to be paid in the form of additional Class B Investment Shares, Series 1.



## USE OF PROCEEDS FROM SALE OF SECURITIES

Shares will be issued for cash only.

The principal uses of the net proceeds and purpose of this offering are to enable the Credit Union to satisfy the legal requirements to achieve and maintain a minimum level of regulatory capital, as set out in section 84 of the Act, and to provide a capital base for future growth. The Credit Union's capitalization, if this offering is fully subscribed, and after the Special Dividend is declared, assuming the amounts of assets and equity recorded on the Credit Union's financial statements as of December 31, 1996 and assuming the Special Dividend was paid from reserves, could support additional growth of \$16,471,732; on the same assumptions except that the offering is minimally subscribed, the Credit Union's capitalization could support growth of \$471,732; please see page 17 for a discussion of the implications of a minimal subscription. 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.

### PLAN OF DISTRIBUTION

1. The price to members for each Class B Investment Share will be \$1.
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, Series 1 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 2,000,000 Class B Investment Shares, Series 1, or until the date on which the Board, having noted that the Credit Union has received subscriptions for the minimum 1,200,000 Class B Investment Shares, Series 1 but not for the maximum 2,000,000 Class B Investment Shares, Series 1, and that six months has not passed since the date of this offering statement, resolves to close this 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 oversubscribed, and subscriptions will not be prorated.

**If the funds to be used by a subscriber to pay for shares subscribed are on deposit at the Credit Union, 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.**

**If the funds to be used by a subscriber to pay for shares subscribed are coming from outside the Credit Union, such funds will be held in escrow, in accounts to be trusted by Co-operative Trust Company of Canada, until the offering is completed or withdrawn, or until the subscriber exercises the right to reverse the decision to purchase the securities (as described on the cover of this Offering Statement). If the offering is completed, the proceeds will be released from escrow and used to pay for the shares for which the member subscribed. If the offering is withdrawn, or if the subscriber reverses the decision to buy, the proceeds will be refunded in full, and interest calculated at the Credit Union's 30-day term**

**deposit rate as at the date of this Offering Statement, prorated for the number of days the funds were in escrow, to those who subscribed.**

The above-noted terms and conditions regarding holds on deposit accounts and regarding escrow accounts are detailed on the Credit Union's subscription form for Class B Investment Shares, Series 1 and on separate agreements, to be signed by subscribers, authorizing holds on deposit accounts and/or placement of proceeds in escrow accounts. Copies of the Subscription Form and the forms for authorization of a hold on funds in deposit accounts and/or placement of funds in escrow accounts are printed in this Offering Statement on pages 44, 45 and 46.

Class B Investment Shares, Series 1 for which subscriptions have been received will be issued within 60 days following the Closing Date.

If fully subscribed, the gross proceeds to be derived by the Credit Union from the sale of the Class B Investment Shares, Series 1 shall be \$2,000,000. The costs of issuing these securities are not expected to exceed \$50,000, and these costs, net of applicable tax savings approximating \$11,005, will be deducted from the gross proceeds in arriving at the amount to be reported as share capital outstanding. The estimated maximum net proceeds of this offering of securities are \$1,961,005.

If, after six months from the date of this Offering Statement, subscriptions received for the Class B Investment Shares, Series 1 amount to less than \$1,200,000 in the aggregate, and this offering for Class B Investment Shares, Series 1 has not yet been renewed with the approval of the Director of Credit Unions, this offering will be cancelled and withdrawn, and all funds "frozen" or held in escrow 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, Series 1 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, Series 1. The maximum subscription per member shall be \$50,000 for 50,000 Class B Investment Shares, Series 1. 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, Series 1. 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, SERIES 1)**

Oshawa Community has arranged a line of credit and overdraft facilities totalling CDN\$3,000,000 and US\$3,000 at Credit Union Central of Ontario Limited ("CUCO"). The purpose of this combined facility is to cover fluctuations in daily clearing volume on the chequing accounts of the members of the Credit Union. 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 period from January 1, 1995 to December 31, 1995, the balance owing on the Canadian dollar line of credit fluctuated from a high of \$3,140,413.62 to a low of \$0, and the balance owing on the U.S. dollar line of credit fluctuated from a high of \$94,668.46 to a low of \$0; the substantial balances resulted from CUCO

procedures, or errors which were subsequently corrected. During the period from January 1, 1996 to December 31, 1996, the balance owing on the Canadian dollar line of credit has fluctuated from a high of \$2,623,633 to a low of \$0; the substantial balance resulted from CUCO procedures which result in an investment renewal being debited before the redemption is credited. The U.S. dollar line of credit was not utilized during this period.

## AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Oshawa Community Credit Union Limited are Tinkham & Associates, Chartered Accountants, 2842 Bloor Street West, Suite 305, Toronto, Ontario M8X 1B1, phone (416) 233-2139, fax (416) 233-1788.

The registrars and transfer agents for the Class B Investment Shares, Series 1 are designated staff of Oshawa Community.

## DIRECTORS AND SENIOR MANAGEMENT

### Board of Directors

The following table sets forth the board of directors of Oshawa Community:

<b>Name/Municipality of Residence</b>	<b>Principal Occupation</b>	<b>Position/Office</b>
Roy Vanderkwaak Courtice, Ontario	Engineering Technician, City of Oshawa	President, Member of Audit Committee
John Royer Oshawa, Ontario	Investment Broker	Vice-President
Sig Nitschke Oshawa, Ontario	Retired	Corporate Secretary
Mary Cole Oshawa, Ontario.	Retired	Director, Member of Audit Committee
Leo Doyle Kendal, Ontario	Retired	Director
Allan Gibb Oshawa, Ontario	Engineer Technician, Oshawa Public Utilities Commission	Director
Lawrence Avery Blackstock, Ontario	Owner/Operator, Ministry of Transportation License Office	Director
Cal Montgomery Oshawa, Ontario	Supervisor, Oshawa Public Utilities Commission	Director
John Perry Oshawa, Ontario	Retired	Director
Mark Chesebrough Oshawa, Ontario	Labourer, General Motors of Canada	Director, Member of Audit Committee
Ron Ste. Marie Oshawa, Ontario	Retired	Director, Member of Audit Committee

## Senior Management

The following table sets forth the senior management of Oshawa Community:

Name/Municipality of Residence	Position/Title
Lori Gaudette, FCUIC Ajax, Ontario	Administration Manager, Acting Treasurer Manager
Wayne Murray Oshawa, Ontario	Loan Manager

Ms Lori Gaudette has been employed by the Credit Union for approximately 3 years, and previously was the Treasurer Manager of Labatts Employees (Toronto) Credit Union Limited for fourteen years. Previous to her appointment as Acting Treasurer-Manager, Ms. Gaudette acted as Administration Manager, assisting the Treasurer-Manager in the day-to-day operations of the Credit Union and dealing with human resources and marketing issues. Mr. Murray has been employed by the Credit Union for approximately 24 years.

The Treasurer Manager of the Credit Union resigned in September, 1996, as a result both of ill health and also of the discovery of the misappropriation discussed at page 27 under the heading "Lawsuits and Other Material on Regulatory Actions", regarding which he now faces criminal charges. At a Board meeting August 13, 1996, the Board agreed that the Administration Manager, Ms. Lori Gaudette, should continue as acting Treasurer Manager. The Credit Union also retained CUCO to assist in the recruitment of a new General Manager of the Credit Union; the recruitment is ongoing at this time.

## LAWSUITS AND OTHER MATERIAL OR REGULATORY ACTIONS

Other than actions to recover delinquent loans where Oshawa Community 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, except as disclosed below.

### Court File No. 79171/97 - Estate of Lillian Alice Dodsworth, Wilfred John Dodsworth and Ruby May Dodsworth v. Oshawa Community Credit Union Limited, Reginald Cooksey, Charles Morison, and Joseph C. Victor

This action seeks, against the Credit Union and against Mr. Cooksey, damages in the amount of \$250,000, being the indebtedness under two mortgages granted by the Credit Union, and punitive damages in the amount of \$10,000. The action also seeks, in the alternative, a declaration that both mortgages are invalid, unenforceable, and discharged. Finally, the action seeks, against both Mr. Morison and Mr. Victor, solicitors which provided independent legal advice to Lillian Alice Dodsworth, and to Wilfred and Ruby Dodsworth respectively, damages in the amount of the indebtedness under the relevant mortgage. The late Lillian Alice Dodsworth was the mother of the guarantor of the mortgages, Raymond Duane Dodsworth; Wilfred John Dodsworth is the guarantor's father, and Ruby May Dodsworth, the guarantor's step-mother. The action alleges that Lillian, Wilfred, and Ruby Dodsworth were elderly, uneducated, unsophisticated in business matters, retired, and living on marginal incomes, and that therefore both mortgage transactions were grossly imprudent and, allegedly, unconscionable. The action further alleges that the guarantor on both mortgages had a very poor credit history, both personally and in his business, and that the Credit Union was aware of his poor credit history. The action further alleges that, with respect to the certificate of independent legal advice regarding Lillian Alice Dodsworth, the Credit Union was expecting a solicitor other than Mr. Morison to advise Lillian Alice Dodsworth, but accepted Mr. Morison's certificate without question. The action further alleges that the mortgages were for the exclusive benefit of Raymond Duane Dodsworth or his business, and, allegedly, were procured through the undue influence of Raymond Duane Dodsworth over his mother, father

and step-mother. The action further alleges that the mortgages breached the established lending policies and practices of the Credit Union. The action further alleges that the Credit Union was a fiduciary in the circumstances, and failed to discharge its fiduciary obligations. The action also alleges that Mr. Cooksey conspired with Raymond Duane Dodsworth to defraud Mr. Dodsworth's parents, and that the Credit Union is liable for Mr. Cooksey's conduct. The action also alleges, against Messrs. Morison and Victor, the solicitors giving independent legal advice on the transactions, that they were not independent of the guarantor of both mortgages, and that they breached their contracts with the plaintiffs, and were negligent in advising the plaintiffs. Management, on the advice of counsel, intends to defend this action, and believes its likelihood of success is good. On that basis, the Credit Union has taken no allowance against these impaired loans.

The Credit Union is unaware of any regulatory action currently pending regarding its non-compliance with capital adequacy requirements of the Act. However, the Credit Union discovered in July, 1996 a misappropriation of the sum of approximately \$112,491.17. Full restitution for the misappropriation, satisfactory to the Credit Union, has been made, and the individual responsible for the misappropriation is no longer in the employ of the Credit Union; the direct impact of the misappropriation on the Credit Union's financial performance in the fiscal year ending December 31, 1996 was insignificant, but the resultant review of the Credit Union's loan portfolio revealed both the necessity for an increase in the allowance for impaired loans and also a portfolio of commercial mortgages which the Credit Union was not licensed to grant. The Credit Union subsequently obtained the approval of the Ministry of Finance to continue to hold the commercial mortgages. The internal controls of the Credit Union have been reviewed, and management believes, on the advice of the Credit Union's auditor, that the weaknesses in those internal controls, which permitted the misappropriation, have been addressed. Management does not believe further regulatory action against it, as a result of either the misappropriation or the portfolio of commercial mortgages, by either the Ministry of Finance or DICO, is likely; however, the possibility of such action does exist.

## **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, except as outlined below, are made at market rates.

Unionized staff who are laid off by the Credit Union are entitled, under the terms of the collective agreement, to an interest-free loan, up to the amount of their salary, until they begin to receive unemployment insurance benefits. The maximum term of the loan is six months. As of December 31, 1996, the Credit Union had no such loans outstanding.

Personal loans and first mortgages to staff, directors, and committee members are made at a discount of .5% off the usual interest rate on such loans. As of December 31, 1996, there was \$250,844 outstanding in such personal loans, and \$1,406,794 outstanding in such mortgages. No allowance was required with respect to these loans.

As of December 31, 1996, the aggregate value of loans issued to directors, officers, and committee members comprised \$144,492 in personal loans, \$1,038,176 in mortgages, \$53,279 in MeritLines, and \$385,934 in commercial mortgages. No allowance was required in respect of these loans.

As members of Oshawa Community, directors, officers and employees of the Credit Union each hold Membership Shares in the number required to maintain membership in Oshawa Community. Accordingly,

each director, officer and employee may subscribe for the Class B Investment Shares, Series 1, should any of such persons wish to do so.

## MATERIAL CONTRACTS

The following material contracts have been entered into by Oshawa Community during its last three fiscal years of operation.

### Contract with Co-operators' Data Services Limited, effective December 1, 1995

This agreement provides the Credit Union with on-line transaction processing services, access to the Interac and PLUS networks, software maintenance and support, and disaster recovery services, at prices specified by CDSL from time to time and invoiced to the Credit Union monthly. This agreement expires November 30, 2000. Both parties may terminate the agreement if the other party is bankrupt, or is in default of any requirement of this agreement and fails to remedy that default within 120 days of receipt of notice of that default if the default is within the reasonable control of that party. The Credit Union may also terminate the agreement at any time prior to May 1, 1997 by providing CDSL with 6 months' written notice and repaying to CDSL any percentage discounts received to the date of the notice and any deconversion costs. The Credit Union may also terminate the agreement after December 1, 1996 by providing 120 days notice of its intention to terminate, and paying as damages a sum equal to all discounts received during the term of the agreement, all deconversion costs, and the product of the average of the charges incurred during the four months preceding the notice of termination, multiplied by the number of months remaining in the term, or the difference between the minimum total amount payable under the agreement and all invoices paid by the Credit Union.

The Credit Union also acknowledges that CDSL is developing a new client-server-based banking system referred to as The RFS-NT Project. The Credit Union agrees to convert to the new banking system on a mutually-acceptable date, and to terminate this agreement and enter into a new agreement at then-standard pricing, for a term not less than the term remaining in this agreement at conversion. CDSL may give notice at any time after June 30, 1998 that it will no longer service the existing computer system, and the Credit Union may terminate its agreement with 6 months' written notice given after March 31, 1997 by repaying to CDSL all discounts received and all deconversion costs.

The controlling shareholder in CDSL has announced its desire to sell its interest in CDSL. If such a transaction occurs, substantial change is likely in CDSL's pricing and product offerings. It is also unlikely that control of CDSL will remain within the co-operative system.

### Collective Agreement between Oshawa Community Credit Union Limited and International Association of Machinists and Aerospace Workers, effective October 1, 1995

This agreement, which expires September 30, 1998, regulates the terms and conditions of employment, including wages, benefits, and termination, of the Credit Union's unionized staff. The bargaining unit is defined to include all employees except supervisors, persons above the rank of supervisor, persons regularly employed for not more than twenty-four hours per week, and students employed during the school vacation period. The Credit Union is obliged ultimately to accept an arbitrated resolution of disputes between itself and its unionized staff during the term of each collective agreement, if it cannot resolve a dispute directly.

## Credit Union Central of Ontario

Oshawa Community has arranged a line of credit and overdraft facilities totalling CDN\$3,000,000 and US\$3,000 at Credit Union Central of Ontario Limited ("CUCO"), renewable annually. The purpose of this combined facility is to cover fluctuations in daily clearing volume on the chequing accounts of the members of the Credit Union. 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. This facility will next be reviewed and renewed in June 1996.

## **OPERATING RESULTS AND VARIATIONS**

### **Fiscal Year ended December 31, 1996 over the Fiscal Year ended December 31, 1995**

Assets declined by .9% in the period, reflecting a 23.08% decline in term deposits held at CUCO, offset by an increase in the loan portfolio (2.06%). Liabilities other than deferred income taxes declined by .97% in the period. Members' equity (the "net worth" of the Credit Union) grew by 1.34% over the period as a result of profitability (2.73% growth in reserve for financial stability). Interest expense (interest paid by the Credit Union on members' deposits and external borrowings) formed 62.42% of interest income (interest received by the Credit Union on loans or earned by the Credit Union on its investments), compared to 64% in fiscal 1995. Operating expenses (all expenses of the Credit Union, other than interest paid on deposits or on external borrowings) amounted to 44.89% of interest income. This indicates that the total of interest expense and operating expenses exceeds interest income, and illustrates the importance of other income (all income other than interest income, i.e., service charges or rental income) to the financial success of the Credit Union; interest income represented 92.26% of revenues during the period, while other income represented the remaining 7.74% (compared to 91.72% and 8.28% respectively in fiscal 1995). The Credit Union continued to have a relatively-high bad debt allowance, at 1.21% of total loans outstanding as of December 31, 1996. Pre-tax profit in the year amounted to \$49,932, decreasing significantly due to general economic conditions and the factors discussed below.

The misappropriation of funds the Credit Union experienced did not significantly affect directly its financial performance for the fiscal year ending December 31, 1996; however, as a result of a review of its loan portfolio following the misappropriation, the Credit Union increased its allowance for impaired loans by approximately \$200,000, significantly increasing its operating expenses, and decreasing its profitability, for its 1996 fiscal year. The internal controls of the Credit Union have been reviewed, and management and the Board believe, on the advice of the Credit Union's auditor, that the weaknesses in those internal controls, which permitted the misappropriation, have been addressed.

The Credit Union experienced a decrease in rental income from the vacant second floor of its head office location. This income, which amounted to approximately \$104,622, previously comprised a significant portion of the Credit Union's "other income".

### **Fiscal year ending December 31, 1995 over the Fiscal Year ended December 31, 1994**

Assets grew by 3.79%, reflecting a 3.2% increase in the loan portfolio. Liabilities other than deferred income taxes grew by 3.23%, reflecting a 2.28% increase in members' deposits resulting from strong growth in RRSPs and RRIFs (7.98%) and term deposits (4.84%). Members' equity grew by 59.49% as a result of profitability. Financial margin (the excess of interest income over interest expense) increased by 12.24%, and represented 2.99% of average assets held during 1995 (compared to 2.69% of average assets held in 1994); this indicates that the Credit Union's lending and investment businesses were more profitable in 1995 than in 1994, likely

because of better matching of assets and liabilities, and better pricing of deposit and loan products. While interest income grew by 15.5%, interest expense grew by 16.69%; this indicates the growth in term and registered deposits, which are more expensive for the Credit Union than demand deposits like a chequing account. Other revenue remained stagnant, as did operating expenses. The Credit Union continued to have a relatively-high bad debt allowance, at .84% of total loans outstanding as of December 31, 1995. Net income before tax grew by 59.94% to approximately \$493,000, and represented a return on average assets held during 1995 of .81%, compared with .51% of average assets held during 1994; this improvement in profitability of the Credit Union resulted largely from the increased profitability of its lending and investment operations, since there was no significant change in either other income or operating expenses.

**Fiscal Year ended December 31, 1994 over Fiscal Year ended December 31, 1993**

Assets declined by 1.83% in the year; a 3.65% increase in the loan portfolio was more than offset by declines in cash (56.34%) and term deposits (investments) with CUCO (25%), indicating that the Credit Union was taking measures to reduce its unnecessarily high liquidity (funds on hand or invested, rather than being on loan to members), which averaged 21.95% of members' deposits in 1993 and 17.33% in 1994. Liabilities other than deferred income taxes decreased by 2.66%, reflecting a 2.47% decline in members' deposits; this provides further indication that the Credit Union was taking measures to decrease its excessive liquidity. Members' equity increased by 45.13%, because of growth in the funds members have at risk in the Credit Union as membership shares (81.94%), and profitability. Financial margin increased by 22.97%, and represented 2.69% of average assets held during 1994, compared to 2.15% of average assets held during 1993; although interest income declined by 7.33%, interest expense declined by 19%. This increase in the profitability of the Credit Union's lending and investment businesses can be mainly attributed both to measures taken to address the Credit Union's excessive liquidity, including better pricing of deposit and loan products, and also to better matching of assets and liabilities. Other revenue, and operating expenses, remained stagnant. The bad debt allowance was significant, at 1.08% of total loans outstanding as of December 31, 1994. The Credit Union returned to profitability in 1994, earning a net income before tax of approximately \$308,000, after its loss in 1993, enjoying a pretax return on average assets held in 1994 of .51%.

**Other Information**

In 1992, the Credit Union lost \$137,026. Management attributes this loss mainly to non-performing loans resulting from a general economic recession, the proclamation of the current federal *Bankruptcy and Insolvency Act*, and credit-granting policies. Since 1993, the board's credit-granting policies have been reviewed and revised.

*The following table presents financial performance indicators for the Credit Union for the fiscal years ending December 31, 1996, 1995 and 1994. These figures are based on the audited financial statements for three fiscal years. (1 basis point (1 bp.) equals 0.01% of average assets during the period.)*

<b>Financial Performance Indicators</b>	<b>Fiscal Year Ended December 31, 1996</b>	<b>Fiscal Year Ended December 31, 1995</b>	<b>Fiscal Year Ended December 31, 1994</b>
<b>Profitability</b>			
Total Assets (\$ Thousands)	\$61,767	\$62,255	\$59,983
Pre-tax Profit (Loss) (\$ Thousands)	\$50	\$493	\$308
Pre-tax Profit (Loss) (bp)	8	81	51
Net Interest Margin (bp)	277	299	269
Non-Interest Income (bp)	62	75	77
Total Operating Expenses (bp)	331	293	295



<b>Financial Performance Indicators</b>	<b>Fiscal Year Ended December 31, 1996</b>	<b>Fiscal Year Ended December 31, 1995</b>	<b>Fiscal Year Ended December 31, 1994</b>
<b>Compliance with Capital Requirements</b>			
Risk-Weighted Capital Ratio	7.1%	6.2%	N/A
Risk-Weighted Capital Requirement (7.5% at January 1, 1997)	7.0%	6.50%	N/A
Leverage Ratio	3.2%	3.1%	2.58%
Leverage Requirement (4.6% at January 1, 1996)	4.25%	4.00%	4.00%
<b>Loan Composition</b>			
Total Loans Outstanding (\$ Thousands)	\$50,818	\$49,609	\$48,190
Personal Loans and Lines of Credit (% of total)	22.34%	31.24%	31.31%
Mortgage Loans (% of total)	75.13%	68.76%	68.69%
Commercial Mortgages (% of total)	2.53%	0%	0%
<b>Loan Quality</b>			
Bad Debt Allowance (% of Total Loans)	1.21%	.84%	1.08%
Bad Debt Expense (bp)	55	19	26
<b>Other Factors</b>			
Total Members' Deposits (\$ Thousands)	\$58,102	\$58,272	\$56,973
Average Liquidity During the Period (% of total deposits and borrowings)	15.74%	17.68%	17.33%
Asset Growth (Decline) (% change for Period)	(.9%)	3.79%	(1.83%)
Total Members' Equity (\$ Thousands)	\$1,951	\$1,925	\$1,547
Equity Growth (Decline) (% change for Period)	1.34%	59.49%	45.13%

Further analysis is presented in the financial statements which are included in this Offering Statement, beginning on page 32.

## **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 as outlined in the *Credit Unions and Caisses Populaires Act, 1994*. The Board has appointed an Audit Committee, comprising three Directors, which reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors.

**AUDITORS' REPORT**

To the Directors of  
**OSHAWA COMMUNITY CREDIT UNION LIMITED**

We have audited the balance sheet of Oshawa Community Credit Union Limited as at December 31, 1996, 1995, and 1994 and the statements of income and reserve and changes in financial position for the years 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 December 31, 1996, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

TORONTO, Ontario  
January 20, 1997

*Tinkham & Associates*  
CHARTERED ACCOUNTANTS

**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**BALANCE SHEET**  
**DECEMBER 31, 1996, 1995 AND 1994**

	<b>A S S E T S</b>		
	1996	1995	1994
<b>CASH RESOURCES</b>			
Cash on hand and in banks	\$ 900,227	\$ 806,727	\$ 745,164
C.U.C.O. liquidity reserve deposit	2,931,391	2,847,020	2,926,307
C.U.C.O. term deposit	5,000,000	6,500,000	6,000,000
Payroll deductions receivable	17,174	383	11,816
	8,848,792	10,154,130	9,683,287
<b>RECEIVABLES AND ACCRUALS</b>			
Sundry receivables and prepaids	118,869	71,220	6,774
Accrued member loan interest	175,908	176,522	160,160
Accrued investment interest	66,847	350,586	324,075
	361,624	598,328	491,009
<b>MEMBER LOANS RECEIVABLE (Note 2)</b>	50,202,856	49,191,929	47,667,581
<b>INVESTMENTS - at cost (no quoted market value)</b>	916,168	895,075	759,903
<b>CAPITAL ASSETS (Note 4)</b>	1,437,448	1,486,253	1,381,166
	\$ 61,766,888	\$ 62,325,715	\$ 59,982,946

**LI A B I L I T I E S**

<b>MEMBERS' ACCOUNTS AND DEPOSITS (Note 5)</b>	\$ 58,101,902	\$ 58,272,016	\$ 56,973,027
<b>ACCRUED MEMBER INTEREST</b>	1,641,222	1,944,369	1,306,704
<b>LIABILITIES TO NON-MEMBERS</b>			
Payables and accrued liabilities	33,380	43,008	51,730
Income taxes payable	-	101,706	71,611
	59,776,504	60,361,099	58,403,072
<b>DEFERRED INCOME TAXES</b>	39,458	39,458	32,638

**M E M B E R E Q U I T Y**

<b>MEMBER SHARE CAPITAL (Note 5)</b>	523,545	535,725	542,525
<b>RESERVE FOR FINANCIAL STABILITY</b>	1,427,381	1,389,433	1,004,711
	1,950,926	1,925,158	1,547,236
	\$ 61,766,888	\$ 62,325,715	\$ 59,982,946

ON BEHALF OF THE BOARD

Accounting policies - Note 1

Roy W. Warden Director

Scott J. De Director

**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**STATEMENT OF INCOME AND RESERVE**  
**FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994**

	1996	1995	1994
<b>INCOME</b>			
Personal loan interest	\$ 1,273,330	\$ 1,488,468	\$ 1,376,456
Line of credit interest	106,980	115,944	126,321
Mortgage loan interest	2,709,644	2,740,282	2,370,657
Investment	489,272	727,493	535,287
	<u>4,579,226</u>	<u>5,072,187</u>	<u>4,408,721</u>
<b>INTEREST EXPENSE (Note 6)</b>	2,858,130	3,246,158	2,781,821
	<u>1,721,096</u>	<u>1,826,029</u>	<u>1,626,900</u>
<b>FINANCIAL MARGIN</b>			
<b>OTHER REVENUE</b>	384,246	457,842	465,637
	<u>2,105,342</u>	<u>2,283,871</u>	<u>2,092,537</u>
<b>EXPENSES</b>			
Advertising and promotion	11,942	9,681	8,919
Cash cost and clearing charges	100,464	91,569	99,739
Bad debt provision	343,965	118,139	159,207
Convention, training, and annual meeting	13,972	26,356	12,104
Collection	6,311	1,089	3,633
CUCO dues	19,887	20,769	-
Data processing	185,603	196,617	200,686
Depreciation	60,662	46,807	48,226
Insurance - bonding	22,705	22,150	23,328
- general	9,989	10,193	9,780
- share and loan	24,984	29,800	44,080
Maintenance of equipment	1,785	9,415	6,100
Mortgage fees - expense	52,175	34,740	37,923
Office supplies	53,510	52,404	53,132
Occupancy	106,884	112,254	118,847
Postage	21,111	17,257	14,578
Professional services	27,000	13,100	15,475
R.R.S.P. administration fees	8,896	8,463	9,569
Salaries and benefits	816,075	802,576	746,644
Business tax	24,094	24,228	24,224
Telephone	10,885	10,402	7,878
D.I.C.O. insurance premium	132,511	132,563	140,045
	<u>2,055,410</u>	<u>1,790,572</u>	<u>1,784,117</u>
<b>NET INCOME (LOSS) before provision for income taxes</b>	49,932	493,299	308,420
<b>Provision for (recovery of) income taxes</b>	11,984	108,576	71,611
	<u>37,948</u>	<u>384,723</u>	<u>236,809</u>
<b>NET INCOME (LOSS) for the period</b>			
<b>RESERVE, beginning of period</b>	1,389,433	1,004,710	767,901
<b>RESERVE, end of period</b>	\$ 1,427,381	\$ 1,389,433	\$ 1,004,710

**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994**

	1996	1995	1994
<b>CASH PROVIDED BY OPERATIONS</b>			
Cash provided (used) by operations			
Net income (loss) for the period	\$ 37,948	\$ 384,723	\$ 236,809
Items not requiring (providing) cash			
Amortization	60,662	46,807	48,226
Provision for deferred taxes	-	6,819	-
	<u>98,610</u>	<u>438,349</u>	<u>285,035</u>
Cash provided (used) by changes in the following operational balances			
Receivables and accruals	236,704	(36,195)	(246,864)
Accrued member interest	(303,147)	637,665	(207,697)
Payables and accrued liabilities	(111,333)	(49,750)	56,242
	<u>(177,776)</u>	<u>551,720</u>	<u>(398,319)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(79,166)</u>	<u>990,069</u>	<u>(113,284)</u>
<b>CASH USED BY INVESTING ACTIVITIES (NET)</b>			
Personal loans	2,832,034	(507,665)	446,497
Mortgages	(4,049,513)	(1,011,989)	(2,124,513)
Line of credit advances	206,551	(4,694)	-
Investments	(21,093)	(135,172)	8,303
Purchase of fixed assets	(11,857)	(151,893)	(10,491)
	<u>(1,043,878)</u>	<u>(1,811,413)</u>	<u>(1,680,204)</u>
<b>CASH PROVIDED (USED) BY FINANCING ACTIVITIES (NET)</b>			
Member accounts and deposits	(170,114)	1,298,987	(1,445,798)
Member share capital	(12,180)	(6,800)	244,330
	<u>(182,294)</u>	<u>1,292,187</u>	<u>(1,201,468)</u>
<b>INCREASE (DECREASE) IN CASH RESOURCES</b>	<u>(1,305,338)</u>	<u>470,843</u>	<u>(2,994,956)</u>
<b>CASH RESOURCES, beginning of period</b>	<u>10,154,130</u>	<u>9,683,287</u>	<u>12,678,243</u>
<b>CASH RESOURCES, end of period</b>	<u>\$ 8,848,792</u>	<u>\$10,154,130</u>	<u>\$ 9,683,287</u>

**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1996, 1995 AND 1994**

**NOTE 1 ACCOUNTING POLICIES**

**(a) Capital assets and amortization**

Amortization has been calculated based on the estimated useful life of the asset at the following rates.

Building	- 2.50%	straight line
Equipment	- 10%	declining balance
Parking area	- 4%	declining balance
Electronic equipment	- 13.33%	straight line

**(b) Deferred Income Taxes**

The tax allocation method of accounting for income taxes has been adopted by the Credit Union.

**NOTE 2 MEMBER LOANS RECEIVABLE**

Loans receivable comprise:	1996	1995	1994
Personal loans	\$ 10,855,520	\$ 14,790,425	\$ 14,388,547
Residential mortgages	38,179,985	34,112,748	33,100,759
Commercial mortgages	1,283,786		
Line of credit advances	498,892	705,443	700,749
	<u>50,818,183</u>	<u>49,608,616</u>	<u>48,190,055</u>
Less: Allowance for doubtful loans (Note 3)	(615,327)	(416,687)	(522,474)
	<u>\$ 50,202,856</u>	<u>\$ 49,191,929</u>	<u>\$ 47,667,581</u>

**NOTE 3 ALLOWANCE FOR DOUBTFUL LOANS**

The Credit Union is required to maintain, as a minimum, an allowance for doubtful loans in accordance with the standards prescribed in Bylaw No. 6 of the Deposit Insurance Corporation of Ontario. As at December 31, 1996, the allowance for doubtful loans approximates the minimum amount required.

**a) Allowance**

Loan category	Impaired loans	Allowance
Personal loans	\$ 534,231	\$ 454,260
Line of credit loans	102,044	64,963
Mortgage loans	643,192	96,104

**b) Continuity schedule: Allowance for impaired loans**

	1996	1995	1994
Balance January 1	\$ 416,687	\$ 522,474	\$ 536,450
Add: Account recoveries	1,872	14,244	2,888
Provision for bad debts	343,965	118,139	159,207
Deduct: Accounts written off	147,197	238,170	176,071
Balance period end	<u>\$ 615,327</u>	<u>\$ 416,687</u>	<u>\$ 522,474</u>

**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1996, 1995, AND 1994**

**NOTE 4 CAPITAL ASSETS**

			1996	1995	1994
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Land	\$ 428,220	\$ -	\$ 428,220	\$ 428,220	\$ 428,220
Building	1,033,083	(300,767)	732,316	758,116	783,916
Furniture	344,925	(211,362)	133,563	137,270	144,605
Parking area	36,797	(14,288)	22,509	23,447	24,425
Electronic equipment	145,669	(24,829)	120,840	139,200	-
	<b>\$ 1,988,694</b>	<b>\$ (551,246)</b>	<b>\$ 1,437,448</b>	<b>\$ 1,486,253</b>	<b>\$ 1,381,166</b>

**NOTE 5 MEMBERS' SHARES, SAVINGS, ACCOUNTS AND DEPOSITS**

Members' accounts and deposits comprise:

	1996	1995	1994
Personal chequing	\$ 4,659,058	\$ 4,236,119	\$ 4,354,022
Provision for certified orders	10,868	22,286	4,978
Deposit savings	8,008,394	7,588,443	8,447,246
Insured savings	2,474,378	2,532,190	2,975,189
R.R.S.P. and R.R.I.F.	24,884,727	24,240,271	22,448,115
Deposit certificates	18,040,957	19,620,231	18,714,144
O.H.O.S.P.	23,520	32,476	29,333
	<b>\$ 58,101,902</b>	<b>\$ 58,272,016</b>	<b>\$ 56,973,027</b>

Co-operative Trust Company of Canada is the trustee for the Registered Retirement Savings Plans offered to members. Under an agreement with the trust company, member contributions to the plan, as well as income earned on them, are deposited in Oshawa Community Credit Union Limited. On withdrawal, payment of the plan proceeds is made to the members, or the parties designated by them, by the credit union on behalf of the trust company.

The credit union also offers Registered Retirement Income Funds and Ontario Home Ownership Savings Plans to its members.

Each member is required to maintain a \$100 share deposit account, which represents the permanent share capital of the credit union. Shares may be withdrawn on demand, subject to:

- a) the credit union meeting capital adequacy requirements, and
- b) the discretion of the directors who may require notice.

**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1996, 1995 AND 1994**

**NOTE 6 INTEREST EXPENSE**

Interest expense comprises:

	1996	1995	1994
Personal chequing	\$ 10,454	\$ 16,551	\$ 13,202
Deposit savings	57,064	112,599	117,338
Insured savings	9,949	20,762	18,932
R.R.S.P. and R.R.I.F.	1,636,658	1,726,252	1,445,333
Deposit certificates	1,138,390	1,351,418	1,159,747
O.H.O.S.P.	152	344	260
External borrowings	5,463	18,232	27,009
	\$ 2,858,130	\$ 3,246,158	\$ 2,781,821

**NOTE 7 CAPITAL ADEQUACY**

The Credit Union is required by the Credit Unions and Caisses Populaires Act to maintain surplus and capital in an amount totalling not less than 8 per cent of the risk weighted assets of the Credit Union and surplus and capital in an amount totalling not less than five percent of the assets of the Credit Union or such lesser percentage as may be set out by the Director.

In accordance with Ontario Regulation 76, the required minimum levels of surplus and capital to risk weighted assets and to total assets for 1996 are 7.0% and 4.25% respectively. The Credit Union currently maintains a level of 6.60% and 3.13% respectively.

**NOTE 8 RESTRICTED PARTY TRANSACTIONS**

As at December 31, 1996, the aggregate values of loans issued to directors, officers, and committee members comprised:

Personal Loans	\$ 136,575
Residential Mortgages	1,038,176
Merit Line	53,279
Commercial Mortgages	385,934
Lines of credit	7,917

Staff, directors, and committee members are eligible for a lending discount of 0.5% on personal loans and first mortgages. There is no allowance for doubtful loans on these restricted party balances.

The only remuneration paid to directors and committee members was for reimbursements of mileage and out-of-pocket expenses for attendances at meetings. Staff, directors, and committee members are eligible for discounts on various fees and service charges.



**OSHAWA COMMUNITY CREDIT UNION LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1996, 1995 AND 1994**

**NOTE 9 AUTHORIZED SHARE CAPITAL**

The authorized share capital of the credit union consists of the following classes of shares:

- a) an unlimited number of membership shares;
- b) an unlimited number of Class A non-cumulative, non-voting, non-participating special shares ("Class A profit shares");
- c) an unlimited number of Class B non-cumulative, non-voting, non-participating special shares ("Class B investment shares") in series.

**NOTE 10 SUBSEQUENT EVENT**

The Credit Union is in the process of filing an Offering Statement with the Director of Credit Unions to sell to its members up to \$2,000,000 of Class B Investment Shares for a period not to exceed six months from the initial date of the offering. A minimum subscription level of \$1,200,000 of Class B Investment Shares has been set for this offering.

# *Tinkham & Associates*

CHARTERED ACCOUNTANTS

*C.J. Tinkham, C.A., C.M.C.*

*D.C. Tinkham, B. COMM., C.M.C., F.C.A.*

*P.J. Brocklesby, B.B.A., C.A.*

2842 Bloor Street West, Suite 305

Toronto, Ontario, Canada M8X 1B1

Telephone (416) 233-2139

Facsimile (416) 233-1788

## SIGNED CONSENT

To the Board of Directors of  
**OSHAWA COMMUNITY CREDIT UNION LIMITED**

We refer to the Offering Statement of Oshawa Community Credit Union Limited dated March 31, 1997 related to the sale and distribution of Series 1 Class B Special Shares.

We consent to the use in the above-mentioned Offering Statement of our auditors' report dated January 16, 1997 to the Shareholders of Oshawa Community Credit Union Limited on the following annual audited financial statements:

- Balance Sheets as at December 31, 1996, 1995, and 1994 and
- Statements of Income and Reserve and of Changes in Financial Position for the years ended December 31, 1996, 1995, and 1994.

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 statements upon which we have reported or that is within our knowledge as a result of our audit of such financial statements.

Further, we hereby consent to the following:

- 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.

TORONTO, Ontario  
February 8, 1997

*Tinkham & Associates*  
CHARTERED ACCOUNTANTS

**STATEMENT OF OTHER MATERIAL FACTS**

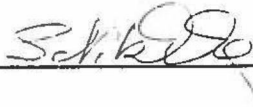
There are no other material facts relating to the issue of securities in this Offering Statement which have not been suitably disclosed herein

## BOARD RESOLUTION

February 6, 1997

***"The Board of Directors of Oshawa Community Credit Union Limited approves the issue of Class B Special Shares (Investment Shares), subject to the Articles of Incorporation and Articles of Amendment of Oshawa Community Credit Union Limited, and as described in the Offering Statement to be dated March 31, 1997."***

I certify the above to be a true copy of a resolution adopted by the Board of Directors of Oshawa Community Credit Union Limited at their meeting of February 6, 1997.



\_\_\_\_\_  
Sig Nitschke, Corporate Secretary

CERTIFICATE

Form 1

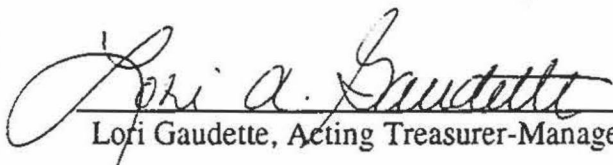
*Credit Unions and Caisses Populaires Act, 1994*

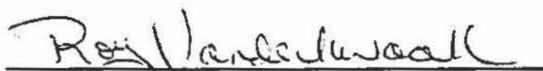
CERTIFICATE OF DISCLOSURE

(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 Oshawa, Ontario, March 31, 1997

  
Lori Gaudette, Acting Treasurer-Manager

  
Roy Vanderkwaak, President



**AUTHORIZATION TO PLACE FUNDS IN ESCROW**

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

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

I have subscribed today to buy a total of \_\_\_\_\_ Class B Investment Shares, Series 1 of Oshawa Community Credit Union Limited. By signing this form below, I hereby authorize Oshawa Community Credit Union Limited to place the funds specified below, as soon as such funds are made payable to the Credit Union, into an escrow account, to be trusted by the Co-operative Trust Company of Canada ("Co-op Trust"), to guarantee payment for these shares.

These funds will be released from escrow only in one of the following four manners:

1. Upon the Offering being closed, Co-op Trust will release the funds from escrow to the Credit Union to pay for the shares on the issue date.
2. If the Offering is withdrawn or cancelled for any reason, Co-op Trust will immediately release the non-RRSP funds from escrow and pay them to me, together with interest calculated at the Credit Union's 30-Day Term Deposit rate as of March 31, 1997, prorated for the number of days such funds were in escrow.
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, 1997, for the Class B Investment Shares, Series 1, Co-op Trust will immediately release the non-RRSP funds from escrow and pay them to me, together with interest calculated at the Credit Union's 30-Day Term Deposit rate as of March 31, 1997, prorated for the number of days such funds were in escrow.
4. If all or part of such funds which are used to purchase shares are identified as being part of a Registered Retirement Savings Plan (RRSP) contract, the RRSP funds will be transferred directly into an RRSP contract held in escrow at the Credit Union under the control of Co-op Trust. If not used to pay for shares under the terms outlined above, the RRSP funds will stay in such RRSP contract until I have given Co-op Trust direction as to their disposition.

The source(s) of funds and dollar amount(s) to be placed in escrow under this agreement is (are):

Source	\$
_____	_____
Source	\$
_____	_____

\_\_\_\_\_  
(Credit Union MSR/Witness)

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

