

the
Police

Credit Union
Serving Police Communities Throughout Ontario



ANNUAL REPORT
2008

**ANNUAL GENERAL MEETING
 GRAND BACCUS
 MONDAY
 APRIL 27, 2009
 7:30 PM**

63RD

Agenda

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| 1. Registration of Members | 11. Report of the Member Credit & Investment Manager |
| 2. Official Welcome and Call to Order | 12. Report of the Controller |
| 3. Minute of Silence | 13. External Auditors Report |
| 4. Adoption of the Agenda | 14. New Business |
| 5. Minutes of Previous Meeting | (a) Appointment of External Auditor |
| 6. Business Arising | (b) Elections – Board of Directors |
| 7. Report of the Chair | 15. Other Business |
| 8. Report of the Chief Executive Officer | (a) Report on Plan 24 Life Insurance |
| 9. Staff Awards | 16. Adjournment |
| 10. Report of the Audit Committee | |

Refreshments

Board of Directors	Position	Last Year of Term
Gary Rossitter	Chair	2009
Bob Spafford	Vice-Chair	2010
Grant MacNeil	Secretary	2009
Eric Jolliffe	Director	2008
Ian Russell	Director	2008
George Tucker	Director	2010
Gary Leitch	Director	2008

Management Staff

Andy Doak	Chief Executive Officer / Controller
Dale Pettit	Member Credit and Investment Manager
Karen Zwarych	Human Resources and Training Manager
David Merrifield	Toronto Branch Manager
Peter Giftakopoulos	Durham Branch Manager
Len Wright	York Branch Manager
Bess Kominos-Estrela	Peel Branch Manager

MINUTES OF THE 62ND ANNUAL MEETING

GRAND BACCUS 2155 MCNICOLL AVENUE MONDAY, APRIL 28TH, 2008 7:30 P.M.

OFFICIAL WELCOME AND CALL TO ORDER

There being a quorum of 50 members present, the meeting was called to order by the Chair of the Board of Directors, Mr. Sam Fairclough, at 7:40 p.m. (165 members were registered plus 8 guests for a total attendance of 173) compared to last year in which 198 members registered plus 30 guests. Actual registration including late arrivals this year was 173 and 8 guests.

MINUTE OF SILENCE

Mr. Fairclough asked the membership to stand for a moment of silence to pay tribute to the members that have passed away. We welcome their heritage to the Police Credit Union.

Mr. Fairclough welcomed those present to the 62nd Annual General Meeting and acknowledged the special guests as follows:

Concentra Financial	Tricia Dasko
Toronto Firefighters Employees Credit Union	CEO, Diana Santos
Toronto Firefighters Employees Credit Union	Chair of the Board, Steve Buckingham
Toronto Firefighters Employees Credit Union	Linda Fernandez
English & Jones Chartered Accountants	Gordon English
	Wayne O'Connell
Internal Auditor	Rick Belsby
CUMIS	Mike Dalgleish

The Chair then introduced the Board of Directors and Management:

Vice Chair	Gary Rossitter
Secretary	Grant MacNeil
Director	Ian Russell
Assistant Treasurer	Bob Spafford
Director	Eric Jolliffe
Director	George Tucker
CEO	Doug Weber
Controller	Andy Doak
Member Credit & Investment Manager	Dale Pettit
Human Resources and Training Manager	Karen Zwarych
Recording Secretary	Karen Ferrara
And himself	Sam Fairclough, Chair

Mr. Sam Fairclough recognized the staff for their dedication and hard work throughout the year.

Mr. Sam Fairclough noted that Mr. Doug Weber will be retiring shortly. He has been with the credit union system for over 26 years. Mr. Weber was initially brought to the credit union to help see the credit union through a difficult time and he decided to stay, that was 18 years ago. Since that time the credit union has grown dramatically from a 1 branch operation to 5

MINUTES OF THE 62ND ANNUAL MEETING

branches with over 11,500 members and \$185 million in assets. Mr. Weber has served on many Boards and has over the years attracted many excellent people to help him in his task of overseeing the credit union. Our staff and Doug is second to none in ensuring the credit union is effectively running for the benefit of you the members. Doug's knowledge of the credit union system and his connections will be missed by his co-workers, managers and directors. It is very comforting that the operation of the credit union was in his hands. It made the position of being on the Board a little easier. Doug has already indicated that he will be keeping a sharp eye on the goings on of the credit union and will be at the annual meetings to voice his opinions, concerns or compliments. The Board and staff of the credit union will be hosting a dinner for Doug and his family on the 18th of June. Tickets are available at the credit union from Karen Ferrara the Board secretary. Finally, I would like you to join with me in wishing Doug a long and happy retirement and also a well deserved thank you for the very fine job you did for us for his time at the credit union. We will miss you and good luck.

Sam Fairclough also noted that Auxi Tsang, after 20 years of service with the credit union is retiring. A presentation was made to Ms. Tsang by Gary Rossitter and Sam Fairclough.

AGENDA

The agenda of the Annual General Meeting as contained in the report on page 1 was accepted on a motion by Mr. Hugh Riddell, seconded by John Bremner

Motion Carried

MINUTES OF LAST MEETING

The Minutes of the previous Annual General Meeting held on April 30, 2007 were adopted on a motion by Mr. Hugh Riddell, seconded by Mr. John Bremner.

Motion Carried

REPORT OF THE CHAIR

Mr. Fairclough noted that his report is contained on page 9 of the annual report.

As you can notice from the report that was tabled, Mr. Fairclough noted that he was very pleased with the progress that the credit union has achieved. Even though the economic situation was a little rough, the credit union managed thanks to a strong management staff and a strong Board to make things work.

There is continued growth with the on-line banking system. This provides the members with secure, convenient access to their banking needs.

The credit union was chosen by the Toronto Police Association to facilitate the OMERS surplus to their members. This was a great opportunity for the credit union.

Mr. Fairclough thanked the management and the Board of Directors for the progress that the credit union has made.

The Chair, Sam Fairclough moved the adoption of his report. Mr. Steve Carpenter seconded the motion.

Motion Carried

REPORT OF THE CHIEF EXECUTIVE OFFICER

Mr. Doug Weber noted that it is with great pleasure, that he is able to present his report as the credit union has had a phenomenal year. Mr. Weber dispensed with the formal reading of his report on page 10 and detailed some of the highlights of his report.

Mr. Weber noted that he would be discussing the Asset Backed Commercial Paper (ABCP) as this is a topic that has been in the news lately.

Doug Weber noted that implementing the concept of the Rewards membership based on input from the membership in a survey 5 years ago has reaped phenomenal benefits for the credit union and membership alike. The credit unions assets have grown by 16.6% this year, loans

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by \$18M and deposits by \$37M. The members continue to receive the best rates on the market and this shows as the members are bringing their business to us everyday.

As Sam Fairclough had noted in his report that the credit union was privileged to be chosen by the Toronto Police Association to distribute the OMERS surplus to their existing and retired membership. This enabled us to established a relationship with members that had left the credit union many years ago and re-establish that relationship. Much of the money has remained on deposit which meant that unlike the other financial institutions; the credit union did not have liquidity issues this year and we were able to keep on lending money.

Mr. Weber noted that over \$25,000 was utilized by the staff for training/education ranging from Canadian Securities Courses to first aid.

Doug Weber introduced a new product “cashable term deposit”. The credit union has recognized that the membership in the past has shown an interest for a product with a high interest rate deposit investment that is cashable anytime. The rates for the Primary members will be linked to the ING savings rate plus .20bp. Regular members will receive the ING savings rates plus .05pb. The term will be cashable after the first 6 months with full interest for the term held. Prior to the 6 months the term is still cashable but with 0 interest. The minimum term is \$5,000 and registered contracts are not eligible as they are not supposed to be cashed. Any current terms will be grandfathered, regular terms purchased from February 1, 2008 on will be locked in with the exception of a members passing.

Doug Weber noted that the merger between BC Central and Ontario Central was to occur in 2007. Together they would be called Central 1. This merger was delayed as Ontario Central was involved in the ABCP paper. Asset Backed Commercial Paper is a vehicle utilized world wide to fund lending in residential mortgages, vehicle lending, commercial lending and a variety of other funding. Rate increases in the US caused massive default ratios in the sub prime mortgage market with foreclosures. As a result investors became nervous and stayed away from the ABCP paper. Several hundred billion dollars was involved in the world market which impacted everyone.

The credit union did not have any investments in this paper nor did any of our members. Credit Union Central of Ontario is involved to the tune of \$196M. CUCO will need to be bailed out in order for the merger to continue. A trust will be formed and owned by all credit union members of CUCO to purchase a note to be held for an extended period of time (9 years). Over this period of time it will realize its par value. It will fluctuate with the market rates. Mr. Weber is unsure of the amount that the credit union will have to invest. There will be a meeting on May 30, 2008 at which time the credit union will know how much the credit union will be required to purchase and at what price. CUCO and the Police Credit Union remains strong and possibly stronger than the banking systems throughout this world wide crisis.

Tom Froude inquired why the credit union would not have a high interest savings account like the other financial institutions? Doug Weber explained that the credit union has to match the terms to mortgages in order to off set the money. An analysis on this product shows that the rate of return would be better if you watch your account and invest according to the change in rates. Mr. Froude inquired if this is available for US money? Mr. Weber noted that it is for Canadian funds only.

Doug Weber thanked everyone for making him feel so welcome over the past 18 years. He will miss everyone. Mr. Weber noted that he has had the best staff and acknowledged the support of his wife Gloria and his family throughout the years.

Mr. Doug Weber moved his report as contained on page 10 of the 2007 Annual Report seconded by Mr. Tom Froude.

Motion Carried

STAFF AWARDS

Sam Fairclough asked Karen Zwarych and Doug Weber to make the presentations for the staff awards.

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Mr. Weber presented the following staff anniversary pins:

For 5 years of service:

Janine Abernethy
Carmencita Canivel-Sibug
Kathy Holland

For 15 years of service:

Lila Jacob
Sheryl Hebor

2007 Outstanding Sales Achievement

Donna Aleksovski

Best Support Staff

Brenda Wilson
Adele Proulx
Susan Van Winckle
Cari Shearer

For 10 years of service:

Jackie McCulloch

For 20 years of service:

Karen Zwarych

Business Development

Jennifer Seerattan

Attendance

Kathy Holland

I would like to take the time to mention the following staff that have had a solid performance in the sales area for 2007.

- Donna Aleksovski
- Adele Proulx
- Susan Van Winckle
- Lila Jacob
- Cari Shearer

Investment Funds in Canada

Kati Kabkab

Seneca College of Applied Arts and Technology

Karen Zwarych

AUDIT COMMITTEE REPORT

The Audit Committee report can be found on page 11 of the report. Gary Rossitter noted that the Audit Committee is a committee of the Board consisting of three members, Grant MacNeil, Bob Spafford and himself. They meet bi-monthly to fulfill the mandate essential to monitoring and testing government issues for the credit union. They are assisted by the Sub Audit Group which consists of Garry Glaze, Gary Leitch and Vaughan Weddell. These gentlemen along with Rick Belsby perform audits on the credit union. The Audit Committee along with the Board and staff commend them on the excellent work they perform.

Gary Rossitter moved his report as contained on page 11 of the Annual Report. Seconded by Mr. Bob McNair.

Motion Carried

LOAN REPORT

Mr. Pettit noted that his report is on page 12 of the Annual Booklet.

Mr. Pettit acknowledged the efforts of staff that work in the area of investments, Susan Van Winckle, Lila Jacob, Bess Kominos-Estrela, Cari Shearer and Peter Giftakopoulos.

Dale Pettit noted that there was over \$47M in gross credit advanced which was 3.8% higher

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than last year. Last year was an exceptional year for the credit union. The combination of loans and mortgages portfolios as of year end 2007 grew by over 13% to \$148M.

Loan write offs for the year amounted to \$55,727, recoveries from previous written off loans was just over \$5,000. There were 5 new bankruptcies/consumer proposals for 2007.

The credit union continues to provide financing for all new cadets and there were 363 for 2007 totalling over \$3M advanced.

Dale Pettit thanked everyone that was part of the fabulous results, staff, management, Doug Weber and the Board of Directors.

Mr. Pettit thanked Doug Weber for hiring him back in 1996 and wishes him well in his retirement.

Mr. Art Lymer inquired what the credit union was funding the new recruits for, was it cars/houses? Dale Pettit noted that the credit union is funding the cost for them to attend school (Alymer) which amounts to more than \$8,000. There is a package which incorporates that cost, an overdraft and a small credit card, an introduction to the credit union. This is a big part of the credit union.

Dale Pettit moved his report, seconded by Mr. Art Lymer.

Motion Carried

REPORT OF THE CONTROLLER

Mr. Doak's report can be found on page 15 of the report.

Andy Doak acknowledged the hard work and dedication of his staff, accounting, administration and IT throughout the year. Thank you to Auxi Tsang for all her years of service and wish her well on her retirement.

A special thanks to Doug Weber who hired me 18 years ago, he has been a mentor and a friend.

Total cash resources are up \$3M, investments are up \$4.2M and as previously noted by Doug and Dale loans to members increased \$18M over last year. There was a substantial increase in members deposits in the amount of \$36.9M.

Andy Doak noted that borrowings are 0 compared to last year when the credit union had \$10.7M which they had borrowed from Credit Union Central of Ontario.

Overall assets grew from \$157.9M up to \$184M which represents an \$26.1M increase which is phenomenal.

Retained Earnings opened at \$8.2M and closed at \$8.6M with a net income for the year of \$534,000 which is defined on the Statement of Operations.

Operating Revenue grew by \$2.4M, Interest Expense grew by \$2M and closed at \$5.3M, Financial Margin closed at \$4.7M, Operating Margins grew by \$800,000 and closed at \$6.7M, Operating Expenses grew by \$500,000 and closed at \$6M resulting in \$691,000 Net Income before Income Taxes. It has been a very successful year.

Andy Doak noted that on page 19 of the report there are new disclosure requirements, they are listed under the financial instruments. Held for Trading, Held to Maturity, Loans and Receivables, Available for Sale and Other Financial Liabilities are all new notes that were not in previous years.

Also new notes on page 20 of the report, Liquidity Risk, Credit Risk, Interest Rate Risk and Foreign Exchange Risk which talks about the different areas of risk within the credit union on the balance sheet.

Mr. Doak noted that on page 21 of the report, Changing in Accounting Policies, as of January 1, 2007 the credit union has adopted new accounting standards issued by the Canadian Institute of Chartered Accountants regarding financial instruments. The adoption of these new accounting standards by the credit union resulted in changes to the accounting policies as

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outlined in number 2, Significant Accounting Policies. This transition adjustment decreased investments and decreased opening retained earning by \$167,667.

Mr. Doak explained that Total Liquid Investments were up \$4.1M closing at \$23.6M in 2007 and \$19.7M in 2006. With the borrowing position disappearing the credit union was able to invest term deposits at Central in the amount of \$9M.

Mortgages were up \$17.2M closing at \$125.2M, personal loans up slightly at \$800,000 closing at \$23.4M and Net Loans to members closing at \$148M versus \$130M the previous year.

There are a number of increases in the Members Deposits, chequings are up \$1.9M closing at \$16.2M, Savings are up \$4.3M closing at \$32.1M, Term Deposits are up \$28.5M closing at \$66M, RSP's are up \$3.9M closing at \$37.1M although RIF's declined slightly by \$1.4M resulting in a \$36.8M increase closing at \$170.6M which is a fantastic result.

Regulatory Capital for 2007 is \$1.1M from the member shares and retained earnings at \$8.6M. Future Income Taxes Recoverable 294,603 compared to last year which is \$326,288.

This year the credit union is allowed to add back in the loan allowance in excess of the specific allowance which is \$114,809 so the total Regulatory Capital closed at \$9.6M compared to the previous year which closed at \$9M.

Note 16 Future Accounting Policy Changes is also a new note.

Andy Doak moved his report, seconded by Mr. Doug Lewis.

Motion Carried

REPORT OF THE EXTERNAL AUDITOR

Andy Doak then called upon Mr. Wayne O'Connell of the accounting firm of English & Jones LLP to present the 2007 Auditors Report.

Mr. O'Connell report can be found on page 14 of the report.

Mr. Wayne O'Connell noted that English & Jones have conducted various audit tests and these findings are explained in the report.

Mr. English noted that the financial statements are the responsibility of the credit union's management. The Auditor's responsibility is to examine these financial statements and provide you with an opinion as to their fairness. The audit is performed in accordance with the Canadian Generally Accepted Auditing Standards.

Mr. English noted the firm concluded that in their opinion the financial statements are fairly presented in accordance with Canadian generally accepted accounting principals for the year end December 31, 2007.

The report of the External Auditor was accepted on a motion by Mr. Donald Martin, seconded by Mr. John Bremner.

Motion Carried

APPOINTMENT OF EXTERNAL AUDITOR

Gary Rossitter as Chair of The Audit Committee asked for a mover and seconder to appoint the firm of English and Jones as the external auditors for 2008. Moved by Mr. Doug Corrigan, seconded by Mr. Bill Evans

Motion Carried

BY-LAW CHANGES

Bob Spafford noted that the proposed By-Law changes for the credit union were handed out to the members as well as posted on the website, announced in the December newsletter and available in all the branches since January. These changes came about due to the amendments made to the Credit Union Caisse Populaire Act in 2007. The Ministry of Finance has imposed/deleted some restrictions on becoming a Director of the credit union and have

MINUTES OF THE 62ND ANNUAL MEETING

added requirements for those interested persons in being a Director of the credit union. These additional requirements require that a potential Director must meet certain qualifications in order to qualify to become a Director, past history (bondable), spend time to review the laws and policies, appreciate and understand the time required to fulfill the duties of a Director and commit to an education program that ensure they have the minimum qualification to serve as a Board member in a complex financial environment. A package had been developed for those persons interested in becoming a Board member next year or in subsequent years.

The Ministry responsible has also imposed limits or maximum terms that a Director may serve as a member of the Board. These changes make it impossible to accept nominations from the floor. The Board is of the opinion not to form a nominating committee as it would impede the election process. We the Board feel that having a member notify us 90 days prior to the AGM to ensure the required criteria is met is the best solution. These changes will become effective the fiscal year 2009.

The following are the changes for approval by the membership:

Qualification

4.02 No person shall be qualified for election as a director if he/she is less than 18 years of age; if he/she is not a member of the Credit Union; and shall be a Canadian citizen or a person lawfully admitted to Canada for permanent residency who is ordinarily resident in Canada. No director who is disqualified under the Act shall be qualified for election as a director.

Additions to Section 4.02

In order to qualify for election, any member wishing to stand for election must notify the Board of Directors of their intention to run at least 90 days prior to the annual general meeting

Election and Term

4.03 At every annual general meeting of the Credit Union, after the first election of the board, an election shall be held to fill the places of members of the board whose terms of office have expired, and the members so elected shall hold office for three years, or until their successors in office are elected or appointed.

Additions to Section 4.03

The maximum number of terms a person elected may serve is 5 consecutive terms (15 years). Jack Reid inquired if this is something in the Act? Mr. Weber explained that this is not in the Act but with the time frame it was decided by the Board to have the person apply in advance so that the Board would be able to review the criteria in advance of the election. The 90 days is not in the Act.

Bob Spafford moved the approval of the By-Law changes, seconded by Doug Lewis.

Motion Carried

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

OTHER BUSINESS

ELECTIONS

The Chair called upon Mr. Gordon English of English and Jones LLP to explain and conduct the election process.

Mr. English stated there were 2 positions open. He would call for nominations three times.

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The nominations for a three-year term on the Board of Directors were:

Bob Spafford	- nominated by Doug Lewis
George Tucker	- nominated by Doug Corrigan
Frank Chen	- nominated by Tom Osborne
Gary Leitch	- nominated by Garry Glaze

Mr. English noted that there were 174 ballots and 3 spoiled ballots. (He then asked each of the nominated if they would stand, an affirmative response was received from all). Mr. English stated that the election was won by Bob Spafford and George Tucker.

Motion Carried

The ballots were counted under the review of Mr. Gordon English and Wayne O'Connell of English and Jones LLP.

Elected for a three year term were:

George Tucker
Bob Spafford

Motion to destroy ballots by Mike Bagg seconded by Sandra Morgan.

Motion Carried

BUSINESS ARISING

P24 LIFE SAVINGS

Doug Weber noted that at the 2002 meeting, it was announced that the insurance on the savings account was to be cancelled effective January 1, 1999. The Board of Directors committed to maintaining the insurance for those existing members until December 31, 2007. The liability to the credit union on January 1, 2000 was approximately \$18,000,000. As at April 14, 2008 the liability has been reduced to approximately \$645,250. Since the credit union has self insured itself in 2002, we have paid out \$108,930 in claims and \$26,500 in 2007.

The credit union has sufficient reserves to continue until December 31, 2008 and given the present reserves can commit to an extension to December 31, 2010. We will continue to report to you on an annual basis on the status of the insurance. Reserves are presently \$138,000.

Jack Reid inquired how much was saved in premiums? Doug Weber noted that there was approximately \$200,000 in premiums that would have been paid out with \$138,000 in reserves that will be paid out over a period of time. This substantially reduces the liability to the credit union.

Doug Weber moved acceptance of the P24 Life Savings, seconded by Bruce Priestman.

A draw was held for several prizes.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:45 p.m. on a motion by Bob McNair.

MINUTES APPROVED this 28th day of April, 2008.



Sam Fairclough, Chair



Grant MacNeil, Secretary

CHAIR'S REPORT

On behalf of the Board of Directors it is my pleasure to report to you the members on the progress of your Credit Union for the year ended 2008.

2008 has proved to be a very exciting and yet challenging year for the Credit Union. Long time Director Mr. Sam Fairclough decided to retire from the Board in August. Thanks very much Sam for your efforts and contributions to the Credit Union throughout your years of service. The Board appointed Mr. Gary Leitch to serve out the remaining 7 month's vacancy. Doug Weber, our CEO also announced his retirement after 18 years of service. During his tenure, Doug had the opportunity to serve many Board members and was instrumental in directing his staff as well as overseeing the growth of the Credit Union from a one branch operation to our current five branches.

A committee of the Board was subsequently formed to recruit a new CEO and Mr. Andy Doak our Controller for the past 18 years was selected to fill the position. Andy has a wealth of experience with our Credit Union and is very knowledgeable of the credit union system.

In addition, Mr. Wayne Murray our Durham Branch manager and Auxil Tsang our Administrative Supervisor from Corporate office announced their retirement plans as well. All in all, this was quite a turnover for us in one year.

At our Annual General Meeting last year the membership passed two By-law amendments, as mandated by the Ministry of Finance. These changes related to election qualifications and term limits for Directors and will be implemented for 2009. At our planning seminar in October 2007 the Board set term limits for Directors. Each term is 3 years long and the maximum number of consecutive terms a Director may serve is 5 (maximum duration is 15 years). This should prove to be very beneficial to the Board in the long run as we should experience renewal on a regular basis and at the same time ensure Board members are knowledgeable and qualified. The Board encourages members to become involved on committees of the Board or to volunteer, both will continue to make our Credit Union stronger and ensure the future direction reflects the needs of our members.

Also at our last meeting, it was reported that a merger between BC Central and Credit Union Central of Ontario (CUCO) would take place in 2008. This merger did in fact happen, forming what is now known as Central 1. However, as a condition of the merger the investments which CUCO held in Asset Backed Commercial Paper (approximately 196M) were to be assumed by associated credit union's of CUCO. As a result, those credit unions affiliated with CUCO were required to invest in these financial instruments, which most likely will be held to maturity (approximately 9 years) unless a buyer can be found. Over this period of time it is expected that the value of these investments will fluctuate with market conditions. It is anticipated we will obtain full recovery of our investment at its maturity. However in the interim, market conditions have dictated that a write down in the value of this investment is necessary and this has impacted our overall profits for 2008.

Nonetheless, the Credit Union has had a very good year considering the turmoil which is world wide. As you are aware, financial institutions and banks all over the world have had tremendous issues with their operations. We have met and or exceeded all the regulatory requirements and are a very healthy and viable operation which I am sure is the envy of many other credit unions.

We continue to grow year after year. Our membership is becoming younger with the success of the recruit program, as this has had a tremendous impact providing members in the prime of their borrowing years.

In closing, I thank you for the confidence you have shown by electing us as Directors to the Board. All of the Board, management and staff will continue to work on your behalf, to ensure we continue to be successful as a credit union and remain responsible to you, the members.



Gary Rossitter
Chairman of the Board

CHIEF EXECUTIVE OFFICER'S REPORT

Good evening ladies and gentlemen, on behalf of management and staff of your credit union I would like to take this opportunity to welcome you to our annual meeting. Over the next few minutes I will update you on our 2008 successes, provide an overview of our present challenges and share with you my vision for the future.

Tonight is a very exciting evening for me, as this is my first AGM as Chief Executive Officer of the Police Credit Union. I feel very fortunate to have been selected for this prestigious position and certainly welcome the challenge of leading this great organization and its 63 year history into the future. I've always believed that the strength of any organization is only as deep as the quality of people serving it and so it's very reassuring to look around and understand that this Credit Union is well served by an experienced Board, a dedicated management team, and great staff all doing their best to work for you, our members.

2008 certainly has been a challenging year. Never in our modern day history have we witnessed the turmoil in the global economy. Every day, new headlines broadcast the latest financial furor south of the border, while financial markets falter. Despite all the negativity in the financial services market place the credit union finished the year just slightly off its projected profitability, this was before extraordinary items. Although loan demand did not match budgeted growth, results were indicative of growth levels achieved in 2004 and 2005. Total loan growth for 2008 finished at 6.68 million. Deposit gathering initiatives were very successful as more than 13.59 million was received from additional member deposits, however as a result of further OMERS distributions net deposit growth reached only 3.15 million. Overall, total Credit Union assets increased by 2%. As a result of the merger between Credit Union Central of Ontario (CUCO) and BC Central, our Credit Union was forced to write down at year end its holding's in CUCO shares by \$81,595 and an additional write down of \$269,579 of our ABCP 2008 Limited Partnership Units. As part of the merger transaction, all CUCO affiliated credit unions were forced to acquire a proportionate amount of ABCP units based upon asset size. All CUCO affiliated credit unions have suffered similar write downs this year. Through no fault of our own, these year end write downs exhausted most of our 2008 profits as Net Income before taxes fell to \$61,695

As indicated by Gary, our credit union endured the loss of 48 years of experience due to the retirements of three key staff members and through internal promotion another 5 staff assumed new roles. I'm happy to report that your credit union completed all of these transitions satisfactorily without impacting the quality of service provided to the membership. Congratulations to all staff that was promoted and welcome to those new staff that joined the organization. In addition, all staff continued to upgrade their skill levels through in house training sessions and in some cases staff has enrolled in institution's offering higher levels of education.

One of our great successes this year was the formulation of our Advisory Committees. An extension of our former Liaison Officer role, new Advisory Committees were established at each of our branches. Their mandate is to; help build relationships between the Police Credit Union and the local police service our branches serve, provide input to the management and Board of the Credit Union on how we could improve product and service offerings to our members, introduce proposed new products, services, charges, for reaction and comment, act as a sounding board and bring any member concerns to the attention of the Credit Union. Each regional Advisory Committee has met individually and all attended a combined meeting in the fall to hear about the progress to date on ideas and suggestions

Like most financial institutions 2009 will continue to be a challenging year. With unprecedented low interest rates financial margin compression is expected to continue throughout the year. The Police Credit Union is committed to upholding and strengthening key policies that protect our members deposits and will continue to make prudent loans to our members helping to ensure our loan delinquency rates remain exceptionally low. As well, we're maintaining high levels of capital reserves and liquidity, ensuring funds are available to meet our obligations to our depositors. Despite this outlook the credit union continues to monitor its product and service offerings to ensure members have a full suite of financial products. In January 2009 we launched our Tax Free Savings Account providing both a high interest savings vehicle and term product. Both have been popular with our membership as deposits at the end of the first quarter are close to a million dollars.

CHIEF EXECUTIVE OFFICER'S REPORT

The future continues to shine bright for our Credit Union. With approximately 500 new recruits admitted to our police services annually, membership will continue to grow and prosper. At the same time it is anticipated that newly established Advisory Committees will assist us in further developing relationships with our Police Services. In addition, we will continue to ensure that offers to our Rewards members meet or exceeds those offered by other financial institutions. Work is underway to develop and publish our Credit Union's corporate values, while at the same time develop a strategic footprint to develop our Branch networks into those markets where viable financial opportunity exists further enabling us to service police personnel and their families.

Thank you to the Board, Sub Audit Group and other volunteers for their efforts this past year and of course to the staff of the credit union, your efforts are appreciated by all, you do a great job in making the Police Credit union the successful organization it is.

To the membership, thank you for putting your faith in the Police Credit Union.

A handwritten signature in blue ink that reads "Andy Doak". The signature is stylized with a large, circular flourish around the letter "D".

A. P. Doak
Chief Executive Officer

AUDIT COMMITTEE REPORT

The Audit Committee's function is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information and reporting processes including the risks and controls related to those processes which management and the Board have established.

The Audit Committee is composed of four directors, Mr. Eric Jolliffe, Mr. Bob Spafford, Mr. Grant MacNeil and Mr. Ian Russell, acting as the Chair. The committee has adopted a mandate that includes all of the tasks specified for Audit Committees contained in the Credit Unions and Caisse Populaires Act, 1994 and the associated regulations.

The Audit Committee met bi-monthly during the 2008 fiscal year to complete its responsibilities. Key activities included:

- Review the financial statements and the results of the year-end audit with the external auditor;
- Review the performance of the Auditors and their proposed engagement letter;
- Ensure that regulatory filings were submitted on time;
- Review the Credit Union's policies, procedures and controls for legislative compliance;
- Review the disaster recovery plan;
- Review outstanding (if any) legal issues;
- Review accounting issues;
- Review risk management issues; and
- Review director and officer expenses claims.

The brief overview outlined above is supplemented in great detail by a very dedicated group of individuals, the Sub Audit Group which works in close concert with our internal auditor Mr. Rick Belsby. The Sub Audit Group is chaired by Mr. Gary Glaze and assisting him are Mr. Vaughan Weddell and Mr. Gary Leitch. Mr. Gary Billington joined the Group in June of 2008 and Mr. Leitch left to join the Board in September of 2008. This committee met on 32 occasions during the year which included meeting with the internal auditor eight times, the Audit Committee six times plus attendance at both the Annual Meeting and the Liaison Officers meeting.

Management has implemented recommendations the committee put forth and there are no matters other than those contained in the "Notes to the Financial Statements" which the committee believes should be reported to the members or which are required to be disclosed pursuant to the Act or the Regulations.

On behalf of the Audit Committee,



Ian B. Russell,
Chair, Audit Committee

LOAN REPORT

Over the course of 2008 your Credit Union advanced 753 personal loans totaling \$7,966,679 (down 5.4% from 2007), and 120 mortgages totaled \$26,648,597 (down over 31% from 2007). New gross credit advanced in 2008 totaled \$34,615,276, which is 26.7% lower than the previous record-setting year.

A total of 398 line of credit applications were processed with approved credit limits of over \$11 million, an amount more than 9% higher than the previous year. While this number of applications has also fallen, we are now seeing an increasing number of larger MeritLine requests, underlining the continued popularity of the convenience found with revolving credit. While the total number of credit applications reviewed for the year was almost 14% lower than in 2007 at 1,393, the number denied fell by almost 25% to 121 and represents 8.7% of the total number of applications, (10% denied in 2007).

The combined total of both loan and mortgage portfolios as of December 31, 2008 grew by 4.5%, from \$148,335,387 to \$155,015,452. This is encouraging, in a year of lower volumes to experience less run-off, but we expect our business in 2009 will continue to be challenged by the current turbulent global economic conditions. Our lower allowance for impaired loans at \$171,600 amounts to only 0.11% of our outstanding loans to members, and this low amount continues to illustrate how well our staff follows prudent lending practice. Loan write-offs for the year amounted to \$31,828, while recoveries from previously written-off loans have been consistent at just under \$5,000. We were faced with 15 new bankruptcies/consumer proposals in 2008, up alarmingly from 6 in 2007.

We are pleased to continue providing financial assistance to new cadets for their Ontario Police College training, with 402 assisted in 2008 and \$3,315,298 advanced, plus approved revolving credit limits of \$1,130,000. This loan total represents a year-over-year increase of more than 10%. In addition, 61% of this group immediately met the conditions of 'Rewards' membership, with past results demonstrating more will follow, so our marketing efforts continue to focus on this group, realizing that they represent a large part of our future.

Congratulations to all the staff who have contributed to these results, and my thanks to Doug and Andy and the Board of Directors and Committees for their support and assistance throughout the year.



Dale Pettit
Member Credit & Investment Manager

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Board of Directors and Management are responsible for the preparation, presentation and consistency of financial information, including the financial statements and other commentary contained in this annual report. The financial statement and accompanying notes, prepared in accordance with Canadian generally accepted accounting principles, are considered by the Board and management to be fairly presented, and accordingly they have been approved for issuance to the members. In preparing the financial statements, management has exercised judgment in the selection of significant accounting policies and the determination of reasonable estimates which are reflected herein.

Management has developed and maintains the necessary systems of internal controls to provide reasonable assurance that transactions are authorized and assets are safeguarded. These controls are also designed to provide reasonable assurance that relevant and reliable financial information is produced and they are monitored by the Audit Committee. The Credit Union engages an Internal Auditor to supplement and test the efficiency and effectiveness of the internal controls which are in place. The Internal Auditor reports his findings periodically to the Audit Committee. The Board of Directors meets monthly to oversee management's performance and to discharge its other legal obligations set out in the Credit Union and Caisses Populaires Act, 1994. (the "Act")

The Deposit Insurance Corporation of Ontario conducts a periodic examination and enquiry into the affairs of the Credit Union to ensure compliance with the Credit Union's By-laws and the provisions of the Act under which the Credit Union is chartered and regulated.

The independent external auditors, English & Jones LLP, are appointed by the members of the Credit Union to conduct an examination of our financial statements in accordance with Canadian generally accepted auditing standards and to report thereon. Their report appears opposite this report. The external auditors have unrestricted access to the accounting records of the credit union and they meet periodically with management and the Board of Directors to discuss internal controls, financial reporting and other matters which come to their attention in the course of conducting their audit.

AUDITORS' REPORT

To the Members of
The Police Credit Union Limited

We have audited the balance sheet of The Police Credit Union Limited as at December 31, 2008 and the statements of retained earnings, operations and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



ENGLISH & JONES LLP
Chartered Accountants
Licensed Public Accountants

St. Catharines, Ontario
February 11, 2009

BALANCE SHEET

December 31

	2008	2007
ASSETS		
Cash	\$ 4,228,685	\$ 5,847,527
Investments (Note 3)	25,181,411	26,372,309
Loans to members (Note 4)	155,015,452	148,335,387
Other assets (Note 5)	1,523,310	1,393,339
Fixed assets (Note 6)	1,801,731	2,102,338
	\$ 187,750,589	\$ 184,050,900
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' deposits (Note 7)	\$ 173,009,164	\$ 170,675,099
Other liabilities	4,808,075	3,607,701
Membership shares (Notes 9 & 10)	1,177,815	1,146,403
	178,995,054	175,429,203
MEMBERS' EQUITY		
Retained earnings (Note 10)	8,755,535	8,621,697
	\$ 187,750,589	\$ 184,050,900

On behalf of the Board:



Gary Rossitter, Chair



Bob Spafford, Vice Chair

STATEMENT OF RETAINED EARNINGS

For the year ended December 31

	2008	2007
Balance , beginning of year	\$ 8,621,697	\$ 8,254,698
Transition adjustment	-	(167,667)
Adjusted Balance , beginning of year	8,621,697	8,087,031
Add: Net income for the year	133,838	534,666
Balance , end of year	\$ 8,755,535	\$ 8,621,697

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the Year ended December 31

	2008	2007
OPERATING REVENUE		
Interest on loans (Note 4)	\$ 8,547,546	\$ 8,177,413
Investment income	907,311	1,923,660
	9,454,857	10,101,073
INTEREST EXPENSE		
Interest on members' deposits (Note 7)	4,807,816	5,069,633
Member rebates and distributions	31,300	46,650
Other interest expense	4,457	215,603
	4,843,573	5,331,886
FINANCIAL MARGIN	4,611,284	4,769,187
OTHER OPERATING ITEMS		
Provision for losses on loans (Note 4)	(907)	(59,291)
Other income	1,779,149	1,946,753
OPERATING MARGIN	6,389,526	6,656,649
OPERATING EXPENSES		
Administrative	2,561,533	2,458,296
Amortization of fixed assets	352,893	391,531
DICO Insurance	145,912	110,845
Salaries and benefits	2,873,537	2,961,422
Savings insurance	42,782	42,782
	5,976,657	5,964,876
NET INCOME BEFORE OTHER ITEMS AND INCOME TAXES	412,869	691,773
OTHER ITEMS		
Writedown of Shares - CUCO (Note 3)	81,595	-
Writedown of ABCP 2008 Limited Partnership Units (Note 3)	269,579	-
NET INCOME BEFORE INCOME TAXES	61,695	691,773
INCOME TAX EXPENSE (RECOVERY) (Note 8)	(72,143)	157,107
NET INCOME FOR THE YEAR, also representing Comprehensive Income	\$ 133,838	\$ 534,666

STATEMENT OF CASH FLOW

For the Year ended December 31

	2008	2007
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	\$ 133,838	\$ 534,666
Add items not requiring cash:		
Provision for losses on loans	907	59,291
Amortization of fixed assets	352,893	391,531
Future income taxes	(76,604)	31,685
	411,034	1,017,173
Changes in other assets and liabilities	1,147,007	(422,115)
Cash provided by operating activities	1,558,041	595,058
MEMBER ACTIVITIES - net		
Increase in member loans	(6,680,972)	(18,070,680)
Increase in member deposits	2,334,065	36,831,580
Increase in membership shares	31,412	37,303
Net cash provided by (used in) member activities	(4,315,495)	18,798,203
INVESTING ACTIVITIES - net		
Decrease (increase) in investments	1,190,898	(4,443,549)
Purchase of fixed assets	(52,286)	(221,290)
Net cash provided by (used in) investing activities	1,138,612	(4,664,839)
FINANCING ACTIVITIES - net		
Increase (decrease) in bank indebtedness	-	(10,678,309)
INCREASE (DECREASE) IN CASH	(1,618,842)	4,050,113
CASH, beginning of year	5,847,527	1,797,414
CASH, end of year	\$ 4,228,685	\$ 5,847,527
<hr/>		
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash received for interest	\$ 9,547,687	\$ 9,936,453
Cash paid for interest	4,510,128	4,951,477

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF THE BUSINESS

The credit union operates under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") and is affiliated with Central 1 Credit Union ("Central").

2. SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements have been presented using accounting principles applicable to a going concern, which assumes that the credit union will continue in operation for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary, if the credit union were unable to continue as a going concern. Such adjustments could be material.

Revenue Recognition

Interest on loans and investments is recognized as earned at the end of each month and when ultimate collection is reasonably assured.

Investment income relating to dividends on shares is recognized when declared by the related company and when ultimate collection is reasonably assured.

Financial Instruments - Recognition and Measurement

Financial instruments are initially recognized on a trade date basis at their fair value when the credit union becomes a party to the contractual provisions of the financial instrument or nonfinancial derivative contract. Subsequent measurement is based on the classification of the financial instruments as follows.

a) Held for Trading

Cash, provincial government bonds and accrued interest receivable have been designated as held for trading financial assets due to their inherent nature and are recorded on the balance sheet at their fair values, with any changes in fair value recorded in investment income. The cost of held for trading financial assets can be found in Note 13.

b) Held to Maturity

Liquid investments held with Central are classified as held to maturity financial assets and are recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. These investments are only written down for significant declines in market value that are considered to be other than temporary in nature. The fair value of liquid investments held with Central is calculated using a discounted cash flow approach, with the discount rate being Central's market rate, at or near year end, for a similar type investment with a similar maturity. The fair value of held to maturity investments can be found in Note 13.

c) Loans and Receivables

Member loans are classified as loans and receivables and recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. The fair value of variable rate loans approximate their recorded values given that they are linked to the prime rate, which is the benchmark on which the market prices loans. The fair value of fixed rate loans is calculated using a discounted cash flow approach on a combined portfolio basis, based on yearly maturity dates, assuming payments are made evenly throughout the year, with no early repayments and no credit losses and with all loans maturing on December 31st of the related year of maturity, with the discount rate applied being the highest market rate noted being offered, at or near year end, for a loan with a similar maturity date, by other financial institutions. The fair value of loans and receivables can be found in Note 13.

d) Available for Sale

Class A Shares Central, Shares Credit Union Central of Ontario ("CUCO"), ABCP 2008 Limited Partnership units, Cooperators Group Limited preference shares and Credential Securities are classified as available for sale financial assets because they have no readily available market. These investments are recorded on the balance sheet at cost, which is based on the original purchase price. These costs are written down only if there is a permanent decline in the anticipated recoverable amount below the recorded cost amount. Fair value information for these available for sale financial assets has not been disclosed in Note 13 because of the unavailability of a quoted market price in an active market.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

e) Other Financial Liabilities

Member deposits, other liabilities and membership shares are classified as other financial liabilities and are recorded on the balance sheet at amortized cost, with interest being recorded in net income using the effective interest method. The fair value of demand deposits approximates their recorded values as they can be withdrawn at any time without penalty or notice. The fair value of fixed maturity deposits is calculated using a discounted cash flow approach on a combined portfolio basis, based on yearly maturity dates, assuming maturities occur evenly throughout the year, with the discount rate applied being the highest market rate noted being offered, at or near year end, for a deposit with a similar maturity date, by other financial institutions. The fair value of other liabilities approximates their recorded amounts due to their shortterm maturities. The fair value of membership shares is not readily obtainable given the uncertainty as to the timing of future cash flows. The fair value of other financial liabilities is disclosed in Note 13.

Transaction Fees and Costs

Fees and costs associated with lending activities and all other items are recognized as revenue or expense as incurred.

Allowance for Impaired Loans

The credit union writes off to the allowance for impaired loans all amounts known to be uncollectible. Amounts recovered from loans previously written off are credited to the allowance for impaired loans.

As at fiscal year end, the credit union calculates the allowance for impaired loans on an individual basis in accordance with Canadian generally accepted accounting principles and substantially as set out in directives issued by the Deposit Insurance Corporation of Ontario ("DICO"), including bylaw #6.

Accrued interest on impaired loans is included in the allowance for impaired loans.

Fixed Assets

The credit union provides amortization on its fixed assets using the straight line method at the rates set out below, designed to amortize costs over the expected useful life of the respective assets. Amortization is taken at half the yearly amount in the year of addition.

Buildings and improvements	5%
Leasehold and building improvements	8% to 20%
Furniture and equipment	10% to 30%
Computer, telephone and ATM	20% to 33%

Free Rent and Leasehold Inducements

Periods of free rent and leasehold inducements on leased premises are recorded as other liabilities and are amortized against administrative expenses over the term of the lease.

Income Tax

The credit union follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Foreign Exchange

Assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year end date. Income and expenses are translated at the exchange rates in effect on the date of the transactions. Exchange gains and losses arising on the translation of monetary items are included in income for the year.

Use of Estimates

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

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS

Maturing at various dates within one year	2008		2007	
	Carrying Value	Effective Rate	Carrying Value	Effective Rate
Liquidity reserve-Central (CUCO)	\$ 13,314,362	2.76%	\$ 11,535,372	4.37%
U.S. term deposit-Central (CUCO)	1,901,965	0.97%	1,154,244	4.75%
Term deposits-Central (CUCO)	5,000,000	1.34%	9,000,000	4.76%
Provincial government bonds	1,009,495	3.95%	-	-%
Maturing at various dates beyond one year				
Provincial government bonds	-	-%	1,914,546	4.74%
Total liquid investments	21,225,822	2.32%	23,604,162	4.57%
Shares-CUCO	1,044,682		1,263,147	
Class A shares-Central	477,857		-	
ABCP 2008 Limited partnership units	928,050		-	
Cooperators Group Limited preference shares	1,500,000		1,500,000	
Credential securities	5,000		5,000	
	<u>\$ 25,181,411</u>		<u>\$ 26,372,309</u>	

As a condition of membership in Central, a liquidity reserve deposit with Central must be maintained at the greater of 6% of the credit union's total assets or 8% of members deposits and external borrowings in the classes of assets defined in section 17 and 18 of the Regulations, revised each calendar quarter. The deposit can be withdrawn only if there is a sufficient reduction in the credit union's own member shares and deposits or upon withdrawal of membership from Central. At maturity, these deposits are reinvested at market rates for various terms as determined by management.

Class A Shares Central were received on December 31, 2008 from CUCO in exchange for an equivalent amount of CUCO shares held by the credit union. Dividends on these shares are at the discretion of the Board of Directors of Central. No dividends were received on these shares in 2008.

Shares CUCO in the past were to be maintained at 0.9% of the credit union's total assets at December 31 each year. The remaining shares CUCO held at December 31, 2008 are expected to be exchanged for Class E shares in Central in fiscal 2009 on a one for one basis, taking into account any deficits in CUCO or purchase price adjustments from the sale of assets of CUCO to Credit Union Central of British Columbia ("CUCBC"), now known as Central. As at December 31, 2008, due to a deficit existing in CUCO and further purchase price adjustments arising from the sale of assets of CUCO to Central, it is estimated that there is a required writedown on the Shares CUCO in the amount of \$81,595. Dividends on these shares were at the discretion of the Board of Directors of CUCO. No dividends were received on these shares in 2008 (2007 4.25%).

On July 1, 2008, the credit union was required to invest \$1,294,552 in ABCP 2008 Limited Partnership units as a condition of the sale of assets from CUCO to CUCBC. As there was no liquid market for this investment, the fair values used to determine the acquisition price were provided by a firm engaged by CUCO to provide an independent valuation of the assets underlying the asset backed commercial paper investments being transferred to the limited partnership. On December 3, 2008 the credit union received a distribution of capital of \$96,923 from ABCP 2008 Limited Partnership. The credit union has recorded a write down on this investment at December 31, 2008, in the amount of \$269,579.

NOTES TO THE FINANCIAL STATEMENTS

4. LOANS TO MEMBERS

	2008	2007
Residential mortgages	\$ 132,523,850	\$ 125,168,523
Personal loans	22,663,202	23,364,664
	<u>155,187,052</u>	<u>148,533,187</u>
Allowance for impaired loans	(171,600)	(197,800)
Net loans to members	<u>\$ 155,015,452</u>	<u>\$ 148,335,387</u>

Member loans can have either a variable or fixed rate of interest and mature within five years.

Variable rate loans are based on a "prime rate plus" formula with the rate above prime being determined by the size of the loan, the type of security offered, the purpose of the loan and the member's credit worthiness. The credit union's prime rate at December 31, 2008 is 4.00%. Interest rates offered on fixed rate loans vary depending on the size of the loan, the type of security offered, the purpose of the loan, the member's credit worthiness and the loan term. The credit union accepts security on member loans in the form of registered mortgage charges on real property, registered assignments of personal property and member deposits with the credit union.

Residential mortgage loans are secured by residential property and have various repayment terms. Included under residential mortgage loans are \$47,390,570 of loans insured by the Canadian Mortgage and Housing Insurance Corporation and AIG Insurance. (\$48,783,407 in 2007).

At December 31, 2008, the term to maturity and yield ranges of the loan portfolio were as follows:

	Principal	Average Yield
Variable rate	\$ 43,277,468	5.06%
Fixed rate due within one year	29,790,042	5.89%
Fixed rate due more than one year	82,119,542	5.56%
	<u>\$ 155,187,052</u>	

	2008	2007
Interest Income		
Residential mortgages	\$ 6,755,312	\$ 6,267,451
Personal loans	1,792,234	1,909,962
Interest Income	<u>\$ 8,547,546</u>	<u>\$ 8,177,413</u>

Allowance for Impaired Loans

2008	Residential Mortgages	Personal Loans	Total
Opening balance	\$ -	\$ 197,800	\$ 197,800
Recoveries on loans previously written off	-	4,721	4,721
Loans written off	-	(31,828)	(31,828)
Provision charged to operations	15,800	(14,893)	907
Ending balance	<u>\$ 15,800</u>	<u>\$ 155,800</u>	<u>\$ 171,600</u>
Gross principal balance of impaired loans	<u>\$ -</u>	<u>\$ 74,936</u>	<u>\$ 74,936</u>

NOTES TO THE FINANCIAL STATEMENTS

4. LOANS TO MEMBERS - (Continued)

2007	Residential Mortgages	Personal Loans	Total
Opening balance	\$ 5,000	\$ 184,100	\$ 189,100
Recoveries on loans previously written off	-	5,136	5,136
Loans written off	-	(55,727)	(55,727)
Provision charged to operations	(5,000)	64,291	59,291
Ending balance	\$ -	\$ 197,800	\$ 197,800
Gross principal balance of impaired loans	\$ -	\$ 93,945	\$ 93,945

The allowance for impaired loans consists of an allowance for specific impaired loans, accrued interest on impaired loans, a non-specific and a general allowance for potential credit risks in the loan portfolio and the economy in general. The allowance is management's best estimate as to potential losses and actual losses may vary by a material amount.

5. OTHER ASSETS

	2008	2007
Accrued interest receivable - investments	\$ 182,146	\$ 399,858
Accrued interest receivable - member loans	278,734	268,803
Prepaid expenses	253,875	139,941
Other receivables	343,660	290,134
Current income taxes recoverable	93,688	-
Future income taxes recoverable	371,207	294,603
	\$ 1,523,310	\$ 1,393,339

The credit union has the following tax effects of temporary differences as at December 31:

	2008	2007
Capital investments	\$ 61,080	\$ 22,132
Depreciable fixed assets	196,540	182,441
Allowances on impaired loans	17,186	20,313
Non-taxable reserves	96,401	69,717
	\$ 371,207	\$ 294,603

NOTES TO THE FINANCIAL STATEMENTS

6. FIXED ASSETS

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land - Pickering Branch Buildings and Improvements	\$ 671,335	-	\$ 671,335	\$ 671,335
Pickering Branch Leasehold and Building improvements	1,199,483	823,824	375,659	433,026
Newmarket Branch	106,595	101,332	5,263	15,923
40 College Branch	10,514	10,514	-	3,742
Peel Branch	174,375	92,628	81,747	99,185
Toronto Branch	384,968	160,161	224,807	256,887
Pickering Branch	186,915	57,089	129,826	148,518
Corporate Office	79,277	29,852	49,425	53,341
Furniture and equipment	935,625	882,058	53,567	149,979
Computer, telephone and ATM equipment	1,351,830	1,141,728	210,102	270,402
	\$ 5,100,917	\$ 3,299,186	\$ 1,801,731	\$ 2,102,338

7. MEMBERS' DEPOSITS

	2008	2007
Chequing	\$ 17,175,376	\$ 16,243,647
Savings	30,536,878	32,117,834
Term	65,297,558	66,020,307
Registered savings plan	41,674,465	37,104,812
Registered income funds	18,324,887	19,188,499
	\$ 173,009,164	\$ 170,675,099

Member deposits are either redeemable on demand, or have a fixed date of maturity up to five years. Interest rates are set based upon the type, size and term to maturity of the deposit.

	Principal	Average Yield
Variable rate	\$ 50,562,425	0.10%
Fixed rate with maturities within one year	76,250,928	3.58%
Fixed rate with maturities more than one year	46,195,811	3.90%
	\$ 173,009,164	

Interest Expense

	2008	2007
Chequing and savings	118,524	\$ 218,352
Term	2,542,496	2,893,196
Registered savings plan	1,389,948	1,176,910
Registered income funds	756,848	781,175
	\$ 4,807,816	\$ 5,069,633

NOTES TO THE FINANCIAL STATEMENTS

8. INCOME TAXES

The following is an explanation of the relationship between income tax expense and accounting income

	2008	2007
Accounting income before tax	\$ 61,695	\$ 691,773
Tax on accounting income at applicable statutory rate (2008 - 16.50% 2007 - 18.62%)	\$ 10,180	\$ 128,808
Tax effect of expenses relating to the origination and reversal of temporary differences	(82,323)	(28,299)
Tax Expense (Recovery)	(72,143)	\$ 157,107

Tax Expense (Recovery) is comprised of:

	2008	2007
Current	\$ 4,461	\$ 125,422
Future	(76,604)	\$ 31,685
	(72,143)	\$ 157,107

9. MEMBERSHIP SHARES

	2008	2007
Membership shares	\$ 1,177,815	\$ 1,146,403

As a condition of membership, each member is required to hold twenty membership shares with an issue price of \$5 each. As at December 31, 2008 there were 11,799 members (2007 - 11,474).

Funds invested by members in shares are not insured by DICO. The withdrawal of membership shares are subject to certain restrictions as provided by the credit union's bylaws and by the credit union maintaining adequate regulatory capital (see Note 10), as is the payment of any dividends on these shares.

10. REGULATORY CAPITAL

The credit union's objective is to maintain the appropriate quantity, quality and composition of capital needed to: Reflect the inherent risks of the credit union, support current and planned operations and support the distribution of dividends and redemption of member shares. The credit union's capital is derived from equity in the form of minimum share requirements or other share proceeds and retained earnings. The credit union's capital will maintain a minimum percentage for Tier 1 capital in comparison to total capital of 70%. This minimum will never fall below 50% in accordance with the Ministry of Finance's Capital Adequacy Guideline. The credit union's policy is to maintain regulatory capital at 4.5% of total assets and 8% of risk weighted assets. The Act requires credit unions to maintain regulatory capital at 4.25% (2007 - 4.50%) of total assets and 8% of risk weighted assets. The credit union calculates and reports its regulatory capital to the board of directors on a monthly basis to ensure both the requirements of the credit union's policies and the requirements of the Act are met.

The credit union is in compliance with its policies and the Act regarding regulatory capital as at December 31, 2008 as outlined in the following table.

	2008	2007
Membership shares	\$ 1,177,815	\$ 1,146,403
Retained earnings	8,755,535	8,621,697
Loan loss allowance in excess of specific allowance	96,661	114,809
Total regulatory capital	\$ 10,030,011	\$ 9,882,909
% of total assets	5.34 %	5.37 %
% of total risk weighted assets	17.28 %	18.20 %

NOTES TO THE FINANCIAL STATEMENTS

11. COMMITMENTS

Credit Facilities

The credit union has authorized lines of credit with Central totaling \$3,500,000 and an authorized contingency term loan of \$4,500,000. These credit facilities would be interest bearing at the market rates in place at the time of usage of such facilities and would have varying payment terms and maturities as negotiated between the credit union and Central. These credit facilities are secured by a registered assignment of book debts with a carrying amount of \$155,015,452 and a general security agreement covering all assets of the credit union, which includes a further \$29,410,096 of financial assets. The balance outstanding on these credit facilities as of December 31, 2008 was \$ nil (2007 - \$ nil).

Member Loans

The credit union has the following commitments to its members at the year end date on account of loans, and unused lines of credit:

Residential mortgages	\$ 4,698,004
Unused lines of credit	30,509,779

Contractual Obligations

The credit union is committed to a long-term contract for its banking system up to December 31, 2013. The estimated annual commitment is \$384,000.

Operating Leases

The credit union is committed to the following minimum annual lease payments with respect to operating leases of premises for the Newmarket, Peel, College and Toronto branches and Corporate office: 2009 - \$235,245; 2010 - \$231,768; 2011 - \$193,515; 2012 - \$193,515 and 2013 to 2015 cumulative - \$467,346.

Along with these minimum annual lease payments, the credit union is also committed under these operating leases to pay their proportionate share of common area maintenance costs and realty taxes, the amount of which fluctuates from year to year, with the annual future commitments being uncertain at this point in time.

12. RESTRICTED PARTY TRANSACTIONS

At December 31, 2008, there were 12 loans outstanding to restricted parties totalling \$1,015,509 (2007 - \$734,128). Restricted parties include directors, committee members, officers, and related businesses, as well as their spouses and immediate dependent families. All loans were made in the normal course of business in accordance with the provisions of the Act. The allowance for impairment of these loans at December 31, 2008 was nil (2007 - nil).

Members of the board of directors and volunteer groups received, in total, honoraria amounting to \$49,533 in 2008 (2007 - \$49,150).

13. FINANCIAL INSTRUMENTS

Fair Values

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Financial assets designated as held for trading	\$ 5,727,330	\$ 5,699,060	\$ 8,525,259	\$ 8,430,733
Held to maturity investments	20,216,327	20,238,007	21,689,616	22,199,774
Loans and receivables	155,015,452	153,958,438	148,335,387	145,301,215
Other financial liabilities measured at amortized cost	177,817,239	178,928,828	174,281,460	175,486,793

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL INSTRUMENTS - (Continued)

The other financial liabilities measured at amortized cost totals noted above do not include amounts related to membership shares, as their fair value cannot be readily obtainable. The cost of membership shares can be found in Note 9.

Financial Risks

Liquidity Risk

The business of the credit union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet anticipated daily financial obligations, including member needs with respect to the funding of member loans or withdrawal of member deposits. The credit union's objective is to ensure that it faces limited risk exposure in this area through requirements placed on the sources, quality and amount of liquid assets that are required to be maintained to meet normal operational requirements, contingency funding, significant deposit withdrawals and regulatory requirements. The credit union achieves these objectives through the diversification of its liquid investment portfolio with reputable financial institutions, the placement of withdrawal restrictions on large deposits held by individual members or connected groups of members and the matching of the maturities of member deposits to the maturities of liquid investments and member loans. A summary of the maturities of member deposits can be found in Note 7. The related maturities of liquid investments and member loans are found in Notes 3 and 4. The overall policy of the credit union is to maintain liquidity between 8% to 18% of member deposits and borrowings. The credit union must maintain liquidity at 8% of member deposits and borrowings as prescribed by the Act. The credit union calculates and reports its liquidity to the board of directors on a monthly basis to ensure these policies and regulatory requirements are met. There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. The liquidity of the credit union at December 31, 2008 is 14.63%, which meets the requirements of the Act and credit union's minimum requirement.

Credit Risk

The business of the credit union necessitates the management of credit risk. Credit risk is the potential for loss due to the failure of a member to meet its financial obligation on a loan issued to them. The credit union's objective is to provide creditworthy members with appropriate borrowing opportunities using appropriate and prudent lending policies. It is the policy of the credit union to keep the exposure to credit risk within the limits set by the Board of Directors and the Act, through its detailed credit granting policies and procedures. The credit union reports to the board of directors on a monthly basis information required by the Board of Directors and the Act. The credit union is also in regular contact with delinquent members to mitigate the risk of loss on impaired or potentially impaired loans. There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. The credit union's maximum exposure to this risk can be found in Note 4. As at December 31, 2008, the credit union also has \$769,774 member loans past due but not considered impaired.

Interest Rate Risk

The business of the credit union necessitates the management of interest rate risk. Interest rate risk refers to the potential impact of changes in interest rates on the credit union's earnings when financial liabilities are not properly matched with financial assets with respect to maturities and interest rate variability. The credit union's objective is ensure that the credit union faces limited exposure in this area and manages its risk as required by the Act. It is the policy of the credit union to keep the exposure to interest rate risk within the limits set by the Board of Directors and the Act, through its detailed structural risk management policies and procedures. The credit union assesses and reports its interest rate risk to the board of directors on a monthly basis through the use of a sophisticated income simulation model. Through this model, the credit union runs various scenarios based upon expected interest rate levels and the credit union manages a risk tolerance level based upon a pre-determined shock to those rates. The process and procedures surrounding this are governed by the Act and Board of Directors. The maximum level of risk which can be tolerated is a 0.15% of total assets change in income due to this change in interest rates. There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. As of December 31, 2008, the credit union has a 0.13% of total assets impact on the credit union's earnings for a 1% increase in interest rates and a (0.13)% of total assets impact on the credit union's earnings for a 1% decrease in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL INSTRUMENTS - (Continued)

Currency Risk

Currency risk refers to the potential impact of changes in foreign exchange rates on the credit union's earnings where US dollar denominated financial liabilities are not matched with US dollar denominated financial assets with respect to maturities. The credit union's objective is to ensure that the credit union faces limited exposure in this area and manages its risk as required by the Act. The credit union's policy is to have a maximum unhedged US currency of 23% of the total assets or maximum of \$1,000,000. The credit union also calculates this ratio on a monthly basis to ensure these policies and regulatory requirements are met. There has been no change to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. As of December 31, 2008, total unhedged US currency is 0.09% of total assets, which is within the credit union's policy limits. As at December 31, 2008 a \$0.01 change in the US foreign exchange rate would have an insignificant effect on the credit union's earnings.

14. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. The credit union's first year end under IFRS will be December 31, 2011. The transition date for the credit union will be January 1, 2011 and will require the restatement for comparative purposes of amounts reported by the credit union for the year ended December 31, 2010. While the credit union has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

CREDIT UNION STAFF

Corporate Office

Chief Executive Officer

Executive Secretary

Controller

Financial Accountant

Accounting Clerk

Proof Clerk

Computer Services Manager

Network Administrator

Member Credit & Investment Manager

Investment Advisor

Human Resources & Training Manager

Call Centre – Supervisor

Call Centre Representative

Call Centre Representative

Administration Services – Supervisor

Clearing Clerk

Payroll Clerk

EFT Clerk

Paid Duty Clerk

ATM Clerk

Durham Branch - Manager

Operations Supervisor

Member Service Officer

Member Service Officer

Member Service Officer

Loan Clerk

Teller

Teller Part-time

Teller Part-time

Teller Part-time

Teller Part-time

Teller Part-time

Toronto Branch – Manager

Operations Supervisor

Member Service Officer

Member Service Officer

Member Service Officer

Member Service Officer

Teller

Teller

Teller

40 College Street

Member Service Officer

Peel Branch – Manager

Member Service Officer

Member Service Officer

Branch Floater

Teller

York Branch – Manager

Member Service Officer

Member Service Officer

Teller

Andy Doak

Karen Ferrara

Andy Doak

Janine Abernethy

Elizabeth Kunter

Sylvia Bourke

Robert Mitchell

Kim Vuong

Dale Pettit

Keith D'Sylva

Karen Zwarych

Karen Caume

Jennifer Seerattan

Judy Riley

Brenda Wilson

Arlie Cruz

Kati Kabkab

Tamara Pitter

Menchie Canivel-Sibug

Kellie Hogel

Peter Giftakopoulos

Denise Lombardo

Jackie McCulloch

Sheryl Hebor

Cari Shearer

Kathy Holland

Sue Eastman

Debbie Saboe

Tammy Smedley

Rocchina Correia

Sandra Loder

Brenda Field

David Merrifield

Bernice Muradali

Lila Jacob

Adam Nikolaus

Elizabeth Georgousakis

Sheila Carvalho

Diane Bradt

Roya Ghahremani

Sandra Costanza

Loma Browne

Bess Kominos-Estrela

Donna Aleksovski

Katarina Rakic

Mary Rorras

Maureen Winata

Len Wright

Susan Van Winckle

Adele Proulx

Teresa Horvat

