

2009

**ANNUAL
REPORT**



the
Police

Credit Union
Taking Care of Our Own

Mission Statement: The Police Credit Union will provide a full range of financial products and services at our best possible price ensuring service excellence to all police personnel in the policing communities we serve.

Vision Statement: To become the primary financial institution of choice for our members and their families.

Corporate values:

- Ethics – We will conduct business with honesty and integrity earning the respect, trust and loyalty of our membership.
- Relationships – We value our members and their families, the policing communities we serve and our staff.
- Professionalism – We will conduct ourselves in a courteous, conscientious, responsible manner when fostering our relationships.
- Accountability – We take our responsibilities seriously and will strive to achieve the highest possible standards.
- Excellence of Service & Quality – We are dedicated to providing the best quality and service levels our members expect.
- Financial Knowledge and Education – We believe in educating our members, our Board of Directors and our staff.
- Teamwork – We will work together within our credit union and our policing communities to achieve our common goals.

**ANNUAL GENERAL MEETING
 GRAND BACCUS
 MONDAY
 APRIL 26, 2010
 7:30 PM**

64TH

Agenda

- | | |
|------------------------------------------|-----------------------------------------|
| 1. Registration of Members | 11. Loan Report |
| 2. Official Welcome and Call to Order | 12. Review of 2009 Financial Statements |
| 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

Gary Rossitter
 Bob Spafford
 Grant MacNeil
 Eric Jolliffe
 Ian Russell
 George Tucker
 Gary Leitch

Position

Chair
 Vice-Chair
 Secretary
 Director
 Director
 Director
 Director

Last Year of Term

2009
 2010
 2009
 2011
 2011
 2010
 2011

Management Staff

Andy Doak	Chief Executive Officer
Greg Anderson	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
Sheila Carvalho	York Branch Manager
Bess Kominos-Estrela	Peel Branch Manager

MINUTES OF THE 63RD ANNUAL MEETING

GRAND BACCUS 2155 M^CNICOLL AVENUE MONDAY, APRIL 27TH, 2009 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. Gary Rossitter, at 7:40 p.m. (177 members were registered plus 8 guests for a total attendance of 185) compared to last year in which 165 members registered plus 8 guests. Actual registration including late arrivals this year was 177 and 8 guests.

MINUTE OF SILENCE

Mr. Rossitter asked the membership to stand for a moment of silence to pay tribute to the members that have passed away.

Gary Rossitter acknowledged the special guests present tonight as follows:

Toronto Pipe Band	Tom Munroe
English & Jones Chartered Accountants	Wayne O'Connell
Former CEO	Doug Weber
AIG United Guaranty	Kara Daniels
Concentra Financial	Tricia Dasko
Triumvirate Marketing	Judy Snyder
Internal Auditor	Rick Belsby

Gary Rossitter acknowledged Lily Anthony, the widow of one of our charter members, Sgt. Harold Anthony formerly of the Toronto Police Service.

The Chair welcomed those present to the 63rd Annual General Meeting and acknowledged the Board of Directors and Management as follows:

The Chair then introduced the Board of Directors and Management:

Vice Chair	Bob Spafford
Secretary	Grant MacNeil
Assistant Treasurer	Ian Russell
Director	Gary Leitch
Director	Eric Jolliffe (absent with regrets)
Director	George Tucker (absent with regrets)
CEO/Controller	Andy Doak
Member Credit & Investment Manager	Dale Pettit
Human Resources and Training Manager	Karen Zwarych
Recording Secretary	Karen Ferrara
And himself	Gary Rossitter, Chair

Mr. Rossitter acknowledged the staff for their dedication and hard work throughout the year.

MINUTES OF THE 63RD ANNUAL MEETING

AGENDA

The agenda of the Annual General Meeting as contained in the report was approved on a motion by Gary Rossitter, seconded by Hugh Riddell.

Motion Carried

MINUTES OF LAST MEETING

The Minutes of the previous Annual Meeting held on April 28, 2008 were adopted on a motion by Mr. Bob McNair, seconded by Mr. John Bremner.

Motion Carried

REPORT OF THE CHAIR

Mr. Rossitter presented his report as contained on page 10 of the annual report.

Mr. Rossitter noted that 2008 has been a very exciting although challenging year for the credit union.

Mr. Rossitter noted that Sam Fairclough retired in August, he was a long time Director of the credit union. Gary Rossitter thanked Mr. Sam Fairclough for his efforts and contributions throughout his years of service. Mr. Gary Leitch was appointed to serve out the 7 month vacancy.

Mr. Doug Weber, former CEO announced his retirement after 18 years of service. During his tenure, Doug had the opportunity to serve many Board Members and was instrumental in overseeing the staff as well as overseeing the growth of the Credit Union from a one branch operation to our current five branches. Andy Doak, our Controller for the past 18 years was selected to fill the CEO position. He has a wealth of experience and is very knowledgeable of the credit union system.

Mr. Wayne Murray, Durham branch manager and Auxil Tsang also announced their retirement plans. This was quite a turnover for us in one year.

This is all made possible by the dedication of the staff, management team and the support of the Board of Directors.

The Chair, Gary Rossitter moved the adoption of his report. Mr. Norman Penstone seconded the motion to adopt the Report of the Chair.

Motion Carried

REPORT OF THE CHIEF EXECUTIVE OFFICER

Andy Doak presented his report as contained on page 11 of the annual report.

Andy Doak updated the membership on the 2008 successes, provided an overview of the credit union's present challenges and shared his vision for the future.

Despite all the negativity in the financial services market place, the credit union finished the year just slightly off its projected profitability as Net Income was \$412,000.

As a result of the merger between Credit Union Central of Ontario and BC Central the credit union was forced to write down at year end its holdings in CUCO shares by \$81,595 and an additional write down of \$269,579 of our ABCP 2008 Limited Partnership Units. These year end write downs exhausted most of our 2008 profits as Net Income after taxes was \$133,838.

Mr. Doak explained that the credit union launched the Tax Free Savings Account in January 2009. This has been a popular product with our membership as deposits at the end of the first quarter are close to a million dollars.

Andy Doak thanked the Board of Directors, Sub Audit Group and other volunteers for their efforts this past year. "Special thanks to the staff of the credit union for their efforts, you do a

MINUTES OF THE 63RD ANNUAL MEETING

great job in making the Police Credit Union the successful organization it is.”

Bob McNair inquired if the write down of the ABCP is permanent or is there a possibility of recovery? Andy Doak explained that there is potential for recovery further down the road.

Mr. McNair also inquired about commercial paper, what exactly is it? Andy Doak explained that commercial paper was the investment purchased by Credit Union Central of Ontario. The investment held commercial paper as part of the holdings of that investment. That was impacted by the items that were announced in the Montreal Accord.

Mr. Andy Doak moved his report as contained on page 11 of the 2008 annual report, seconded by Ms. Jane Brown.

Motion Carried

STAFF AWARDS

Gary Rossitter asked Karen Zwarych and Andy Doak to make the presentations for the staff awards.

2008 Outstanding Sales Achievement

Donna Aleksovski

Attendance

Janine Abernethy

Sheila Carvalho

Kathy Holland

Jackie McCulloch

Brenda Wilson

Business Development

Jennifer Seerattan

Best Support Staff

Arlie Cruz

For 5 years of service:

Len Wright

Donna Aleksovski

Bess Kominos-Estrela

For 20 years of service:

Susan Van Winckle

AUDIT COMMITTEE REPORT

The Audit Committee report can be found on page 13 of the annual report. Mr. Ian Russell read his report as printed in the annual report. Ian Russell noted that the Audit Committee is a committee of the Board consisting of four members, Eric Jolliffe, Bob Spafford, Grant MacNeil and himself 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.

Mr. Russell noted that the Sub Audit Group is a dedicated group of individuals that works in close concert with our Internal Auditor Mr. Rick Belsby. Mr. Garry Glaze, Mr. Vaughan Weddell and Mr. Gary Leitch form the Sub Audit Group. Mr. Gary Billington joined the group in June of 2008 and Mr. Leitch left to join the Board in September of 2008.

Mr. Russell indicated that the Audit Committee also would like to thank Rick Belsby, Internal Auditor for his input and expertise.

Mr. Donald Banks requested that the Audit Committee review the individual monthly statements formatting as there appears to be some confusion on the membership part on how they are displayed/interpreted. The Chair of the Audit Committee stated that this will be noted in the minutes and will be reviewed by the Audit Committee.

Ian Russell moved his report as contained on page 11 of the Annual Report. Seconded by Mr. Donald Bell.

Motion Carried

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LOAN REPORT

Mr. Pettit noted that his report is on page 14 of the annual booklet.

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.

Dale Pettit noted that the credit union is 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.

Dale Pettit congratulated all of the staff who have contributed to these results. My thanks to Doug Weber, Andy Doak and the Board of Directors and committees for their support and assistance throughout the year.

Mr. Bob McNair noted that the number of bankruptcies increased from last year. Did we lose more money in light of the increase? Dale Pettit explained that there were 15 new bankruptcies totaling over \$50,000. Of the 15 bankruptcies, 6 members only owed \$500 or less. In the previous year there were only 6 bankruptcies. The total overall write offs in 2008 was \$31,828.

Dale Pettit moved his report, seconded by Mr. Bob McNair.

Motion Carried

REPORT OF THE CONTROLLER

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

Loans to Members have increased by \$6.7M which is up from \$148M to \$155M. Members Deposits have increased \$2.3M now totaling \$173M which is up from \$170.6M. Total Assets are up \$3.7M which is up from \$184M to \$187.7M this represents a 2% increase year over year.

Andy Doak noted that the Statement of Retained Earnings started with a closed balance at the end of 2007 in the amount of \$8.621M, Net Income for the year of \$134,000 resulted in a closed balance at the end of the year of \$8.755M.

Operating Revenues declined by \$600,000. 2007 results were \$10.1M and 2008 finished at \$9.4M. Interest Expense on Deposits declined by \$500,000. 2007 closed at \$5.3M where 2008 was \$4.8M. Financial Margins declined by \$100,000 sitting at \$4.6M compared to \$4.7M last year. Operating Margins were down \$270,000. Total Operating Expenses for the year were \$5.9M virtually unchanged from 2007. That resulted in Current Net Income before Taxes and Other Items of \$412,869. With the write downs from Central 1, Net Income before Taxes were \$61,695 and with Income Taxes Recoverable of \$72,143, Net Income for the year resulted in \$133,838 which is a quarter of the profit made in 2007.

Mr. Doak noted that Investments fell \$2.4M to \$21.2M compared to 2007 results of \$23.6M. The Effective Rate also dropped. In 2007 the credit union was earning an interest rate of 4.57% compared to the 2008 interest rate of 2.32%.

On page 4, Loans to Members, Residential Mortgages increased \$7.3M from last year, Personal Loans decreased over \$700,000 and the overall increase for the credit union was \$6.5M.

Members Deposits have increased over last year by \$2.4M, the deposits this year actually were closer to a \$14M increase. The credit union continues to distribute the funds from the OMERS payout, payments were in excess of \$11M. There was very good growth in the deposit numbers which is highlighted in the Retirement Savings. The credit union received

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\$4.5M in new retirement deposits by the members.

Mr. Doak noted that Regulatory Capital is up \$200,000 over the prior year and closed at \$10.03M compared to \$9.882M. As a percentage of total assets Regulatory Capital is 5.34% and as a percentage of total risk weighted assets Regulatory Capital is 17.28% which complies with the regulations that the credit union must follow.

Andy Doak moved his report, seconded by Mr. Dan Coombs.

Motion Carried

REPORT OF THE EXTERNAL AUDITOR

Gary Rossitter then called upon Mr. Wayne O'Connell of the accounting firm of English & Jones LLP to present the 2008 Auditors Report.

Mr. O'Connell advised the membership that The English and Jones' report can be found on page 16 of the annual report.

Mr. O'Connell noted that English & Jones responsibility as the external auditors is to provide an audit opinion on the financial statements included in your annual report. In order to perform this audit, we have to conduct various audit tests and review the accounting system in accordance with the Canadian Generally Accepted Auditing Standards.

Mr. O'Connell noted that after successful completion of the annual audit they were able to provide a clean audit opinion noting that the financial statements presented in the report are fairly presented in accordance with Canadian Generally Accepted Accounting Standards. The report is dated February 11, 2009.

The report of the External Auditor was accepted on a motion by Mr. Dan Coombs, seconded by Mr. Steve Carpenter.

Motion Carried

BUSINESS ARISING

P24 Life Savings

Andy Doak explained that the Board of Directors has committed to maintain the insurance for those existing members until December 31, 2010.

As of December 31, 2008, the liability to the credit union has been reduced to approximately \$626,000 down from \$645,000 in 2007. Total claims paid in 2008 amounted to \$35,000 which compares to \$26,500 paid out in 2007. This brings total claims paid by the credit union to \$153,472 since our decision to self insure in 2002. At the end of December 2008 reserves set aside for future claims amount to \$158,166. The credit union will continue to update you on an annual basis on the status of the insurance.

Jim Karpik inquired how many members were still a part of the P24 Life Insurance Savings? Andy Doak explained that this was a program put in place many years ago for those members that maintained balances in their savings account of either \$5,000 or \$2,000 without dropping below those thresholds. The insurance was eliminated back in 1991 and has since been grandfathered along by the Board. There are approximately 166 members in total that have the insurance in place.

Jim Karpik inquired what the actual payout would be. Does it depend on the balance at the time? Andy Doak explained that the savings is based on the member either maintaining \$5,000 or \$2,000 in their Plan 24 account without their balances dropping below those thresholds.

The report on the P24 Life Savings was moved by Andy Doak, seconded by Doug Hardy.

Motion Carried

MINUTES OF THE 63RD ANNUAL MEETING

APPOINTMENT OF EXTERNAL AUDITOR

Gary Rossitter asked for the membership's approval to recommend the external firm of English and Jones as external auditors for the 2009. Moved by Mr. Doug Corrigan, seconded by Mr. John Bremner.

Motion Carried

OTHER BUSINESS

ELECTIONS

Gary Rossitter explained the new election process adopted in 2008 at the 62nd Annual General Meeting. There were 3 positions open on the Board of Directors. As there were no applicants other than the 3 current Board members, Mr. Gary Leitch, Mr. Ian Russell and Mr. Eric Jolliffe won by acclamation.

Elected by acclamation for a three year term were:

Gary Leitch

Ian Russell

Eric Jolliffe

Motion Carried

A draw was held for several prizes.

QUESTIONS

Jim Karpik inquired about the election process. He noted that at last year's meeting the Board had found it disturbing that very few people were interested in a position on the Board. He then asked the CEO at that time if maybe they should advertise what is expected of the position, the time commitment and further information. That way you may get more people interested in applying. Mr. Karpik noted that more people joining the police forces have accounting/bankers background and that is disturbing to see only the people that have held those positions being re-elected and that no new people are applying. Gary Rossitter noted that the qualifications required were posted in the monthly newsletter and on the PCU website and the Board is going to be more proactive and committed to advertising information related to the members.

A member inquired about the flags located behind the head table. Gary Rossitter noted that the flags represented the various police forces the credit union services. There were flags from the Toronto, Durham, York and South Simcoe police services.

ADJOURNMENT

There being no further business, the meeting was adjourned at 8:45 p.m. on a motion by Bob McNair.

Motion Carried

MINUTES APPROVED this 27th day of April, 2009.



Gary Rossitter, Chair



Grant MacNeil, Secretary

CHAIR'S REPORT

On behalf of the Board of Directors it is a pleasure to welcome all of you to THE POLICE CREDIT UNION'S 64TH ANNUAL GENERAL MEETING. I, as Chair of the Board, offer my report on the activities of 2009 to you, the members.

Fiscal 2009 was an extremely challenging year for both Board and Management. The dismal situation in the world's collapsing markets and its enormous impact was felt everywhere, including here. Therefore, it was foremost in the minds of the Board and Management to immediately address this issue and the impact the severe global financial state would have on this financial institution. Management projections for fiscal 2009 were very cautious with our CEO advising us further that the Credit Union would be strongly challenged to achieve a positive year end result. In concert with management a plan of action was discussed, developed and implemented. The plan included a closer examination of operating expenses, temporarily limited training programs and re-evaluating our marketing program. I am pleased to report that as a result of the extraordinary efforts of the entire staff coupled with the action plan, better than expected year end results were achieved.

Although loan requests at our Durham branch have declined over the past few years, deposits continue to increase and may reflect a changing demographic at the branch. Improved relationships are developing with the Durham Police Service and the Association and should result in an increase in business at the branch.

The strong efforts of the staff at the Peel branch have obviously made an impression on the members of the Peel Regional Police and also the Peel Police Association with membership and business increasing in the branch.

The York Branch gained a new manager in 2009, Ms. Sheila Carvalho. The hard work and effort put forth by the staff have resulted in more involvement with South Simcoe Police Service and the RCMP. As well as our ongoing efforts with York Regional Police has resulted in an increase in business there as well.

The Toronto Branch and our corporate operation continue to work to serve our members in conjunction with all the branches in a positive and diligent manner.

I am pleased to report that both the membership and the assets increased in 2009. As we go forward in 2010 it is expected that the assets of THE POLICE CREDIT UNION will surpass TWO HUNDRED MILLION DOLLARS. It is the continued confidence and faith of the membership that will allow this to take place. Thank you for that confidence and that faith.

It is through extraordinary people doing extraordinary things in the face of adversity that gain positive results. 2009 was an exceptionally challenging year and through the efforts of a very experienced and committed management and staff a positive fiscal result was achieved.

Going forward in 2010, I want to assure you that the Board, Management and Staff will continue to support you in achieving your financial goals in every way possible. Thank you for your confidence.



Gary Rossitter, Chair

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 64th annual meeting.

2009 was certainly an interesting year, as the economic turmoil witnessed in the last half of 2008 continued to impact the credit union throughout this year. The economic meltdown of the global economy resulted with Central bankers from around the world reducing their prime rates of interest to record lows in hopes to try and stimulate their local economies. The Canadian landscape was not immune to this decline as the average prime rate of interest was 2.25% while forecasters were suggesting the prime rate of interest to be at 4.00% for 2009. This alone resulted in significant financial margin compression as most lending rates declined throughout the year while many deposit rates already at the lowest levels had nowhere lower to go.

The first six months of this year was slow as growth in our lending portfolios remained stagnant while at the same time deposit growth was exceeding expectations. This resulted in an extremely liquid position for the credit union and with the unexpected low returns on investments created extreme pressures on the financial margins of the organization.

Fueled by low mortgage rates, a recovery of mortgage activity returned during the last half of the year and resulted with a year over year increase in loans to members of 8.0 million or 5%.

New product initiatives introduced over the past years have captured the attention of members as deposit balances in our Tax Free Savings Accounts exceed 1.5 million while balances in our cashable term product has soared and exceed 27 million dollars. As a result of this activity members deposit balances have grown by 11.9 million dollars or 7% this year.

Total assets increased by 5.6% and sit just shy of the 200 million milestone previously mentioned in the chair's report.

Financial margins fell 300,000 below 2008 levels due to the low interest rate environment, thus impacting profitability. The credit union experienced a significant increase in loan delinquencies as our membership has not been immune to the downward turn in the economy. As a result our loan provision required an additional 100,000 dollars this year. Operating Margins declined close to 500,000 compared to a year ago and required your Board and Management to review our plans and strategies to ensure the credit union remained profitable this year. These amendments resulted in a decline of our overheads as savings of 200,000 was achieved when compared to the previous year.

Through our collective efforts I'm happy to report the credit union realized a profit before extraordinary items of 108 thousand. Congratulations to all for a job well done.

Last year we reported that as result of the merger between Credit Union Central of Ontario (CUCO) and BC Central, all CUCO affiliated credit unions were forced to acquire a proportionate amount of Asset Backed Commercial Paper (ABCP) units based upon asset size of the credit union. Our proportional share was equal to 1,294,552 and as a result of non-performance issues we were required to write down this investment by 269,579 last year, this represented the fair market value of this asset at that time. Throughout 2009, our credit union received distribution payments amounting to 298,972 which represented interest payments from those underlying assets. These distributions were subsequently recorded against the principal outstanding. The payments of these distributions are a further indication that the credit union should recover its original investment over the long term.

During the year we completed a review of our business plans and through consultation with various stake holders have updated a Directional Plan which will guide us into the future. Through these consultations, the goal has been to develop a comprehensive long-term strategy to address those concerns from the various stakeholders.

The plan was based upon a number of guiding principles including:

- Rewards membership is key, this means offering the best prices upfront on both loans and deposits with lowest service charges possible.
- Enhancing our relationships with our members, the recruits and the Police Services we serve.

CHIEF EXECUTIVE OFFICER'S REPORT

- Be as convenient as possible by having strategic branch locations within the geographical areas of the police services we serve supplemented by the deployment of ATM devices.
- Provide access through automated processes like computer and telephone banking, automated funds transfers and the latest networks like the Exchange.
- Deliver innovative financial products.
- Invest in technology.

In addition, Board management and staff identified and agreed upon a list of core values which will help govern the way we conduct ourselves and our business with the members we serve. Member service standards have also been developed for all positions which help define expectations throughout our organization.

Through 2009, one of our main focuses was to fine tune our market presence. Our tagline "Serving Police Communities in Ontario" was changed to "Taking Care of Our Own". This is not to suggest we no longer service those communities but is intended to reflect more accurately the local trade area where we regularly conduct our business. This includes developing our relationships with all Police personnel, civilians, and their families. This refinement led to the launch of our new website which has become an information portal linking members with their credit union, its staff and Board of Directors. It provides a connection to Home Banking and offers links to affiliated Police Services and their respective Associations. There are also links to a number of popular financial information websites. New and revised features include bill payment setup, connection with a live Call Centre operator during business hours, a "CEO straight talk" email service which allows members access to the CEO to address any concerns or questions they may have. The new website also accommodates connection through Smartphone enabling members to complete transactions through Home Banking on these handheld devices.

On June 24, 2009 the Ontario Ministry of Finance announced amendments to the Credit Unions and Caisses Populaires Act ("Act") and the accompanying "Regulations". Of particular note to members was the announcement of unlimited insurance for deposits to registered plans and tax free savings accounts (as long as those deposits are made under the Federal Income Tax Act).

Looking forward to 2010, we anticipate further growth in deposit and mortgages helping to surpass the 200 million in assets milestone. Rewards members will continue to see great rates offered by their credit union and profitability levels are expected to return to normal levels.

Members can expect delivery of new MemberCard chip enabled debit cards this fall, as we prepare to meet Interac Association regulations to move to this new technology. It is expected this technology will result in a decline of ATM fraud incidents. Also, the credit union will be required to update its entire existing ATM installs to be compliant with these regulations by the end of 2010.

New ATM installs are planned for the Toronto Police College and York Regional Police's new facility located in Aurora.

Plans are also underway to complete our member's statement re-design project. The new statement design will help improve member communications through enhanced marketing messages and an easier to read statement. The target date for completion is mid year.

Also on the agenda, is the continuation of implementation strategies in preparation for International Financial Reporting Standards (IFRS) which is set to be introduced during 2011.

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. 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 and has adopted a mandate that includes all of the tasks specified for Audit Committees contained within the Credit Unions and Caisse Populaires Act, 1994 and the associated regulations in force on December 31, 2009.

The Audit Committee met bi-monthly during the 2009 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 Billington. This committee met on 32 occasions during the year which included meeting with the Internal Auditor eight times, the Audit Committee five times plus attendance at both the Annual Meeting and the Liaison Officers meeting.

Management has implemented the 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: Mr. Eric Jolliffe, Mr. Gary Leitch, Mr. Grant MacNeil,

LOAN REPORT

Over the course of 2009 your Credit Union advanced 685 personal loans totaling \$8,594,094 (up 7.9% from 2008), and 141 mortgages totaled \$33,830,193 (up 26.9% from 2008). New gross credit advanced in 2009 totaled \$42,424,287, which is 22.6% higher than the previous year.

A total of 424 Line of Credit applications were processed with approved credit limits totaling over \$10 million, which illustrates the continued popularity of the convenience found in revolving credit. While a total of 1,403 credit applications reviewed for the year compared to the previous year, the number denied increased to 153 and represents 10.9% of the total number of applications (8.7 % denied in 2008).

The combined total of both loan and mortgage portfolios as of December 31, 2009 grew by over 5%, from \$155,015,452 to \$162,992,443. Our allowance for impaired loans at \$197,680 amounts to only 0.12% of our outstanding loans to members. Loan write-offs for the year amounted to \$80,521, while recoveries from previously written-off loans have been consistent at just under \$6,000. We were faced with 17 new bankruptcies/consumer proposals in 2009, up from 15 in 2008.

We are pleased to continue providing financial assistance to new cadets for their Ontario Police College training with 329 assisted in 2009 and \$2,709,659 advanced, plus approved revolving credit limits of \$1,277,000. This loan total represents a year-over-year decrease of more than 18%, illustrating a reduction in cadet hiring within the GTA. However, with over 72% of this group immediately meeting the conditions of 'Rewards' membership, our marketing efforts continue to fine-tune our focus realizing that newly hired police personnel continues to represent a large part of our future success.

Congratulations to all the staff who have contributed to these results, and my thanks to 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, 2009 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, 2009 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, 2010

BALANCE SHEET

December 31

	2009	2008
ASSETS		
Cash	\$ 6,764,777	\$ 4,228,685
Investments (Note 3)	25,646,684	25,181,411
Loans to members (Note 4)	162,992,443	155,015,452
Other assets (Note 5)	1,216,628	1,523,310
Fixed assets (Note 6)	1,604,668	1,801,731
	\$ 198,225,200	\$ 187,750,589
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' deposits (Note 7)	\$ 184,853,540	\$ 173,009,164
Other liabilities	3,311,699	4,808,075
Membership shares (Notes 9 & 10)	1,195,260	1,177,815
	189,360,499	178,995,054
MEMBERS' EQUITY		
Retained earnings (Note 10)	8,864,701	8,755,535
	\$ 198,225,200	\$ 187,750,589

On behalf of the Board:



Gary Rossitter, Chair



Bob Spafford, Vice Chair

STATEMENT OF RETAINED EARNINGS

For the year ended December 31

	2009	2008
Balance , beginning of year	\$ 8,755,535	\$ 8,621,697
Add: Net income for the year	109,166	133,838
Balance , end of year	\$ 8,864,701	\$ 8,755,535

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the Year ended December 31

	2009	2008
OPERATING REVENUE		
Interest on loans (Note 4)	\$ 8,034,037	\$ 8,547,546
Investment income	483,904	907,311
	8,517,941	9,454,857
INTEREST EXPENSE		
Interest on members' deposits (Note 7)	4,169,889	4,807,816
Member rebates and distributions	33,000	31,300
Other interest expense	4,202	4,457
	4,207,091	4,843,573
FINANCIAL MARGIN	4,310,850	4,611,284
OTHER OPERATING ITEMS		
Provision for losses on loans (Note 4)	(100,654)	(907)
Other income	1,671,524	1,779,149
OPERATING MARGIN	5,881,720	6,389,526
OPERATING EXPENSES		
Administrative	2,509,683	2,561,533
Amortization of fixed assets	250,969	352,893
DICO Insurance	159,379	145,912
Salaries and benefits	2,852,997	2,873,537
Savings insurance	-	42,782
	5,773,028	5,976,657
NET INCOME BEFORE OTHER ITEMS AND INCOME TAXES	108,692	412,869
OTHER ITEMS		
Writedown of Shares - CUCO	-	81,595
Writedown of ABCP 2008 Limited Partnership Units	-	269,579
NET INCOME BEFORE INCOME TAXES	108,692	61,695
INCOME TAX EXPENSE (RECOVERY) (Note 8)	(474)	(72,143)
NET INCOME FOR THE YEAR, also representing Comprehensive Income	\$ 109,166	\$ 133,838

STATEMENT OF CASH FLOW

For the Year ended December 31

	2009	2008
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	\$ 109,166	\$ 133,838
Add items not requiring cash:		
Provision for losses on loans	100,654	907
Amortization of fixed assets	250,969	352,893
Future income taxes	58,991	(76,604)
	519,780	411,034
Changes in other assets and liabilities	(1,248,685)	1,147,007
Cash provided by (used in) operating activities	(728,905)	1,558,041
MEMBER ACTIVITIES - net		
Increase in member loans	(8,077,645)	(6,680,972)
Increase in member deposits	11,844,376	2,334,065
Increase in membership shares	17,445	31,412
Net cash provided by (used in) member activities	3,784,176	(4,315,495)
INVESTING ACTIVITIES - net		
Decrease (increase) in investments	(465,273)	1,190,898
Purchase of fixed assets	(53,906)	(52,286)
Net cash provided by (used in) investing activities	(519,179)	1,138,612
INCREASE (DECREASE) IN CASH	2,536,092	(1,618,842)
CASH, beginning of year	4,228,685	5,847,527
CASH, end of year	\$ 6,764,777	\$ 4,228,685
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash received for interest	\$ 8,548,193	\$ 9,547,687
Cash paid for interest	4,537,135	4,510,128

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

Financial instruments are initially recognized on a settlement 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, accrued interest receivable and other receivables 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 fair values of cash, accrued interest receivable and other receivables approximates their cost due to their inherent nature. The cost of financial assets designated as held for trading can be found in Note 13.

b) Held to Maturity

Liquid investments are classified as held to maturity investments 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 are 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

Shares Credit Union Central of Ontario ("CUCO"), Class A Shares Central, Class E Shares Central, ABCP 2008 Limited Partnership units, Cooperators Group Limited preference shares and Credential Securities Shares 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, net of any distributions received, and net of any writedowns due to permanent impairment. 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 cost due to their short term 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.

f) 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. Annual amortization on additions is prorated based on the month 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	2009		2008	
	Carrying Value	Effective Rate	Carrying Value	Effective Rate
Liquidity reserve Discount deposits Central	\$ 4,841,552	0.55 %	\$ 6,424,575	2.97 %
Liquidity reserve Term deposits Central	7,270,222	0.43%	6,889,787	2.56 %
U.S. term deposit Central	1,081,881	0.42 %	1,901,965	0.97 %
Discount deposits Central	2,000,000	1.40%	-	- %
Bond deposits Central	2,000,000	1.09%	-	- %
Term deposits Central	-	- %	5,000,000	1.34 %
Provincial government bonds	-	- %	1,009,495	3.95 %
Maturing at various dates beyond one year				
Liquidity reserve Discount deposits Central	\$ 1,820,295	2.12 %	\$ -	- %
Bond deposits Central	3,000,000	2.49 %	-	- %
Total liquid investments	<u>22,013,950</u>	1.02 %	<u>21,225,822</u>	2.32 %
Shares CUCO	246,446		1,044,682	
Class A shares Central	466,387		477,857	
Class E shares Central	688,900		-	
ABCP 2008 Limited partnership units	726,001		928,050	
Cooperators Group Limited preference shares	1,500,000		1,500,000	
Credential securities	5,000		5,000	
	<u>\$ 25,646,684</u>		<u>\$ 25,181,411</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, 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.

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, 2009 are expected to be exchanged for Class E shares in Central in fiscal 2010 on a one for one hundred 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. Dividends on these shares were at the discretion of the Board of Directors of CUCO.

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. Central rebalances the shareholdings of its Class A members annually based on the proportion of each credit union's assets to the total assets of all of Central's Class A members as reported in their most recent audited financial statements. Dividends on these shares are at the discretion of the Board of Directors of Central.

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS - (Continued)

Class E Shares Central were received on March 29, 2009 from CUCO in exchange for a ratio of 1:100 of CUCO shares held by the credit union. Class E shares have a redemption value of \$100 per share. Dividends on these shares are at the discretion of the Board of Directors of Central.

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. As of December 31, 2009, the credit union has received distributions of capital totaling \$298,972 from the ABCP 2008 Limited Partnership. The credit union also has an impairment loss allowance on this investment in the amount of \$269,579.

4. LOANS TO MEMBERS

	2009	2008
Residential mortgages	\$ 140,385,904	\$ 132,523,850
Personal loans	22,804,219	22,663,202
	<u>163,190,123</u>	155,187,052
Allowance for impaired loans	(197,680)	(171,600)
Net loans to members	<u>\$ 162,992,443</u>	\$ 155,015,452

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, 2009 is 3.00%. 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 \$54,954,607 of loans insured by the Canadian Mortgage and Housing Insurance Corporation and AIG Insurance. (\$47,390,570 in 2008).

At December 31, 2009, the term to maturity and yield ranges of the loan portfolio were as follows:

	Principal	Average Yield
Variable rate	\$ 42,126,943	3.55%
Fixed rate due within one year	25,999,477	5.57%
Fixed rate due more than one year	95,063,703	5.05%
	<u>\$ 163,190,123</u>	

	2009	2008
Interest Income		
Residential mortgages	\$ 6,363,362	\$ 6,755,312
Personal loans	1,670,675	1,792,234
Interest Income	<u>\$ 8,034,037</u>	\$ 8,547,546

NOTES TO THE FINANCIAL STATEMENTS

4. LOANS TO MEMBERS - (Continued)

Allowance for Impaired Loans

2009	Residential Mortgages	Personal Loans	Total
Opening balance	\$15,800	\$ 155,800	\$ 171,600
Recoveries on loans previously written off	-	5,947	5,947
Loans written off	-	(80,521)	(80,521)
Provision charged to operations	(15,800)	116,454	100,654
Ending balance	\$ -	\$ 197,680	\$ 197,680
Gross principal balance of impaired loans	\$ 364,521	\$ 155,841	\$ 520,362

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	\$ 15,800	\$ 155,800	\$ 171,600
Gross principal balance of impaired loans	\$ -	\$ 74,936	\$ 74,936

The allowance for impaired loans consists of an allowance for specific impaired loans, accrued interest on impaired loans, a nonspecific 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

	2009	2008
Accrued interest receivable investments	\$ 100,072	\$ 182,146
Accrued interest receivable member loans	240,555	278,734
Prepaid expenses	209,882	253,875
Other receivables	313,497	343,660
Current income taxes recoverable	40,406	93,688
Future income taxes recoverable	312,216	371,207
	\$ 1,216,628	\$ 1,523,310

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

	2009	2008
Capital investments	\$ 30,815	\$ 61,080
Depreciable fixed assets	183,601	196,540
Allowances on impaired loans	20,186	17,186
Non-taxable reserves	77,614	96,401
	\$ 312,216	\$ 371,207

NOTES TO THE FINANCIAL STATEMENTS

6. FIXED ASSETS

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land - Pickering Branch	\$ 671,335	-	\$ 671,335	\$ 671,335
Buildings and Improvements Pickering Branch	1,199,483	880,243	319,240	375,659
Leasehold and Building improvements				
Newmarket Branch	106,595	102,328	4,267	5,263
40 College Branch	10,514	8,875	1,639	-
Peel Branch	174,375	110,065	64,310	81,747
Toronto Branch	384,968	192,242	192,726	224,807
Pickering Branch	198,266	76,348	121,918	129,826
Corporate Office	79,276	39,149	40,127	49,425
Furniture and equipment	938,217	904,570	33,647	53,567
Computer, telephone and ATM equipment	1,391,793	1,236,334	155,459	210,102
	\$ 5,154,822	\$3,550,154	\$ 1,604,668	\$ 1,801,731

7. MEMBERS' DEPOSITS

	2009	2008
Chequing	\$ 19,750,063	\$ 17,175,376
Savings	32,593,339	30,536,878
Term	68,846,266	65,297,558
Registered savings plan	44,790,973	41,674,465
Registered income funds	17,302,934	18,324,887
Tax free savings	1,569,965	-
	\$ 184,853,540	\$ 173,009,164

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.

Members' deposits have the following yield ranges at December 31, 2009:

	Principal	Average Yield
Variable rate	\$ 56,523,023	0.10%
Fixed rate with maturities within one year	61,313,012	2.11%
Fixed rate with maturities more than one year	67,017,505	2.95%
	\$ 184,853,540	

NOTES TO THE FINANCIAL STATEMENTS

7. MEMBERS' DEPOSITS - (Continued)

Interest Expense	2009	2008
Chequing and savings	42,325	\$ 118,524
Term	2,213,049	2,542,496
Registered savings plan	1,282,742	1,389,948
Registered income funds	609,110	756,848
Tax Free Savings	22,663	-
	\$ 4,169,889	\$ 4,807,816

8. INCOME TAXES

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

	2009	2008
Accounting income before tax	\$ 108,692	\$ 61,695
Tax on accounting income at applicable statutory rate (2009 16.50% 2008 16.50%)	\$ 17,934	\$ 10,180
Tax effect of expected future reductions in statutory rate on temporary differences	19,761	-
Tax effect of expenses relating to the origination and reversal of temporary differences	(38,169)	(82,323)
Tax Recovery	\$ (474)	\$ (72,143)

Tax Expense (Recovery) is comprised of:

	2009	2008
Current	\$ (59,465)	\$ 4,461
Future	58,991	\$ (76,604)
	\$ (474)	\$ (72,143)

9. MEMBERSHIP SHARES

	2009	2008
Membership shares	\$ 1,195,260	\$ 1,177,815

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, 2009 there were 11,953 members (2008 11,799).

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.

NOTES TO THE FINANCIAL STATEMENTS

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% (2008 4.25%) 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, 2009 as outlined in the following table.

	2009	2008
Tier 1 Capital		
Membership shares	\$ 1,195,260	\$ 1,177,815
Retained earnings	8,864,701	8,755,535
	10,059,961	9,933,350
Tier 2 Capital		
Loan loss allowance in excess of specific allowance	71,038	96,661
Total regulatory capital	\$ 10,130,999	\$ 10,030,011
% of total assets	5.11 %	5.34 %
% of total risk weighted assets	13.50 %	17.28 %

11. COMMITMENTS

Credit Facilities

The credit union has authorized lines of credit with Central totaling \$8,000,000 with an additional ability to obtain an extraordinary term loan of \$7,500,000. 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 \$162,992,443 and a general security agreement covering all assets of the credit union, which includes a further \$32,411,461 of financial assets. The balance outstanding on these credit facilities as of December 31, 2009 was \$nil (2008 \$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	\$ 7,028,177
Unused lines of credit	31,814,099

Contractual Obligations

The credit union is committed to a longterm contract for its banking system up to December 31, 2013. The estimated annual commitment is \$385,095.

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: 2010 \$239,725; 2011 \$208,259; 2012 \$208,259; 2013 \$187,231; 2014 \$17,212 and 2015 \$143,510.

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.

NOTES TO THE FINANCIAL STATEMENTS

12. RESTRICTED PARTY TRANSACTIONS

At December 31, 2009, there were 10 loans outstanding to restricted parties totalling \$1,135,050 (2008 \$1,015,509). 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, 2009 was nil (2008 nil).

Members of the board of directors and volunteer groups received, in total, honoraria amounting to \$43,150 in 2009 (2008 \$49,533).

13. FINANCIAL INSTRUMENTS

Fair Values

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Financial assets designated as held for trading	\$ 7,418,901	7,418,901	5,727,330	5,699,060
Held to maturity investments	22,013,950	22,087,946	20,216,327	20,238,007
Loans and receivables	162,992,443	162,916,220	155,015,452	153,958,438
Other financial liabilities measured at amortized cost	188,165,239	187,993,559	177,817,239	178,928,828

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 15% of member deposits and borrowings. The credit union calculates and reports its liquidity to the board of directors on a monthly basis to ensure these policies and thus regulatory requirements are met. Effective October 1, 2009, the Credit Unions and Caisses Populaires Act, 1994 and related Section 21 of Ontario Regulation 237/09 were amended such that the requirement for a class 2 credit union is now to establish and maintain prudent levels and forms of liquidity that are sufficient to meet cash flow needs, including depositor withdrawals and all other obligations as they come due rather than the previous requirement to maintain a minimum liquidity of 8% of member deposits and borrowings. There has been no other changes to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. The credit union's total liquidity as at December 31, 2009 amounts to \$28,778,727 which consist of cash \$6,764,777 and liquid investments of \$22,013,950. The liquidity of the credit union, as a percentage of its member deposits and borrowings, is **13.68%** as at December 31, 2009, this percentage exceeds the credit union's minimum requirements outlined above.

NOTES TO THE FINANCIAL STATEMENTS

13. FINANCIAL INSTRUMENTS - (Continued)

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, 2009, the credit union also has \$154,692 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 to 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 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 predetermined 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 the credit union has determined can be tolerated is a reduction of 0.15% of total assets in income due to a change in interest rates. Effective October 1, 2009, the Credit Unions and Caisses Populaires Act, 1994 and related Section 71 of Ontario Regulation 237/09 were amended such that the requirement for a class 2 credit union is now to establish and maintain a prudent interest rate risk management policy rather than the previous requirement to have no more than a maximum reduction of 0.15% of total assets in income due to a change in interest rates. There has been no other changes to this risk exposure or the objectives, policies and procedures used to manage this exposure from the prior year. As of December 31, 2009, the credit union has a 0.12% of total assets positive impact on the credit union's earnings for a 1% increase in interest rates and a 0% of total assets impact on the credit union's earnings for a 1% decrease in interest rates.

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, 2009, total unhedged US currency is 0.09% of total assets, which is within the credit union's policy limits. As at December 31, 2009 a \$0.01 change in the US foreign exchange rate would have an insignificant effect on the credit union's earnings.

NOTES TO THE FINANCIAL STATEMENTS

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. The credit union has begun assessing the effects of the adoption of IFRS for 2011. At this preliminary stage in the analysis, the credit union has so far identified various items that are expected to require adjustments as of the transition date to IFRS of January 1, 2010. These are as follows:

a) Liquid Investments other than Liquidity Reserve Investments

The credit union has decided that under IFRS, it will be designating its liquid investments other than liquidity reserve investments as financial assets at fair value through profit and loss. As such, it is expected that on January 1, 2010 there will be an increase to the carrying value of these investments and a related increase to opening retained earnings of approximately \$57,000.

b) ABCP Limited Partnership units

The credit union has determined that under IFRS, it will be able to record its investment in ABCP Limited Partnership units at its fair value. As such, it is expected that on January 1, 2010 there will be an increase to the carrying value of this investment and a related increase to opening accumulated comprehensive income of approximately \$132,000.

c) Allowance for Impaired Loans

Under IFRS, a general allowance on the credit union's loan portfolio will no longer be allowed. As such, it is expected that on January 1, 2010 there will be an increase to the carrying value of loans to members and a related increase to opening retained earnings. As of this time, the exact amount of this adjustment is not known.

d) Plan 24 Savings Life Insurance Program

Under IFRS, the credit union has determined that a liability with respect to the Plan 24 savings life insurance program will have to be recognized as this program meets the definition of a constructive obligation as defined under IFRS. As such, it is expected that on January 1, 2010 there will be an increase to other liabilities and a related decrease to opening retained earnings. As of this time, the exact amount of this adjustment is not known.

e) Post Employment Retirement Benefits

Under IFRS, the credit union has determined that a liability with respect to post employment retirement benefits will have to be recognized as this program meets the definition of a constructive obligation as defined under IFRS. As such, it is expected that on January 1, 2010 there will be an increase to other liabilities and a related decrease to opening retained earnings. As of this time, the exact amount of this adjustment is not known.

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

Member Service Representative

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

Teller

Teller

Teller

40 College Street

Member Service Officer

Peel Branch – Manager

Member Service Officer

Member Service Officer

Member Service Representative

Teller

Teller

York Branch – Manager

Member Service Officer

Member Service Officer

Teller

Andy Doak

Karen Ferrara

Greg Anderson

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

Diane Bradt

Roya Ghahremani

Sandra Costanza

Loma Browne

Bess Kominos-Estrela

Donna Aleksovski

Katarina Rakic

Mary Rorras

Maureen Winata (maternity leave)

Paulette Maye

Sheila Carvalho

Susan Van Winckle

Adele Proulx

Teresa Horvat

