

INVESTING IN YOU





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## BOARD OF DIRECTORS



Jim Bowman, CA Secretary

Wayne Lee, Executive Member

Jeff Piper, Chair

David Pettalia, Vice Chair



## 2008 DIRECTORS

**First Row (left to right):** Vic Bertolo, Domenic Ferrone, David MacDonald, Paolo Merenda,  
**Second Row (left to right):** Norm Nankervis, Patrick Praysner, Louise Provenzano, Pat Roden  
**Third Row (left to right):** David Walker, Barbara Welin, George Willoughby

**YOU  
MATTER**



## GUIDING PRINCIPLES

### Our Owners/Members

#### **Member Focus**

Healthy, strong and lasting relationships with our members is our main priority.

#### **Financial Soundness**

Balance between members' needs and corporate financial accountability.

### Our Employees

#### **Human Resources Development**

Investing in the development and advancement of our most important asset - our employees.

#### **Respect, Integrity & Trust**

Our members elect the leaders responsible for overseeing our operations.

#### **Choice of Access**

Understanding that members have differing needs and expectations for service delivery.

### Our Community

#### **Community Ties**

We care for and support the people and the community we serve.

## DIRECTOR'S REPORT

In this period of uncertainty within the global and Canadian economies, all organizations are subject to the negative effects of declining markets. Your Board, Management and Staff Team have been working even more diligently to minimize risks that our organization may encounter. The markets have had wild swings and unfortunately, at this time continue to be uncertain. The future outlook is good, however, 'the experts' are uncertain as to when the markets will react positively to government stimulus.

To serve you, the members, more effectively in 2008, a new banking system was implemented. It certainly required a lot of effort and perseverance by many CFCU employees. Working closely with the team from Open Solutions, our staff was able to ensure that many of the issues that we could potentially encounter with such a major project were minimized. We acknowledge that there were and may continue to be some minor issues that may be irritants to some of our members, however, we are committed to resolving as many of those issues as we can. This new banking system will allow us to ensure our future growth and stability within the credit union system.

The merger of Credit Union Central of Ontario and BC Central was finalized in July 2008 under the name of "Central 1". A merger had been discussed and attempted for some time. In April 2008, Ontario Credit Unions learned of a further issue that needed to be addressed. We were required to purchase assets held by CUCO which included 'Asset Backed Paper'. Special meetings were held to provide further details and to allow discussion. After a lot of discussion, Ontario Credit Unions agreed that there were many benefits to having the

merger proceed. Both Ontario and BC Credit Unions voted overwhelmingly to proceed with the merger.

The Limited Partnership was formed to acquire and oversee the management and sale of the "Asset Backed Paper". Although the partnership will hold the paper for some time, it is expected that Credit Unions will recover their investments over time.

On behalf of the Board, I would like to express our appreciation for the effort and dedication that our management and staff continue to demonstrate. CFCU is definitely in a better position to 'weather the storm' because of their efforts.

Respectfully submitted on behalf of the Board of Directors,

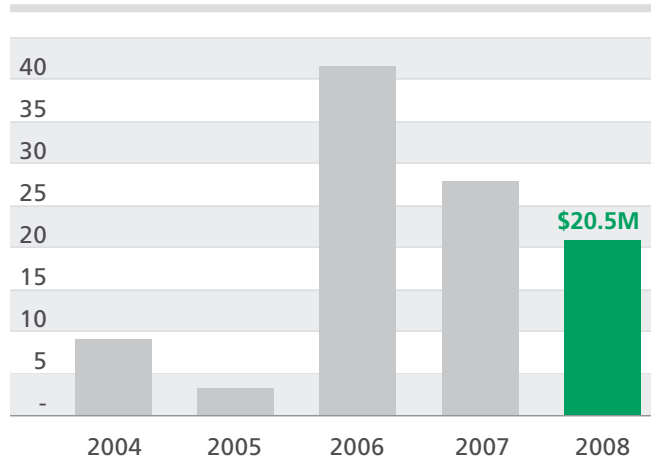


Jeff Piper, *Chair*

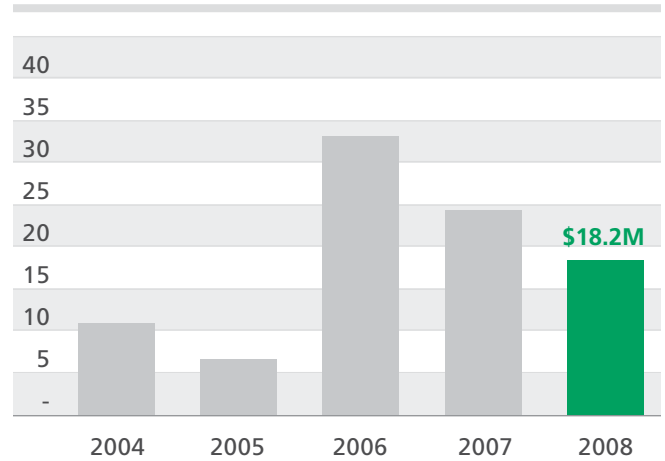


## FINANCIAL HIGHLIGHTS

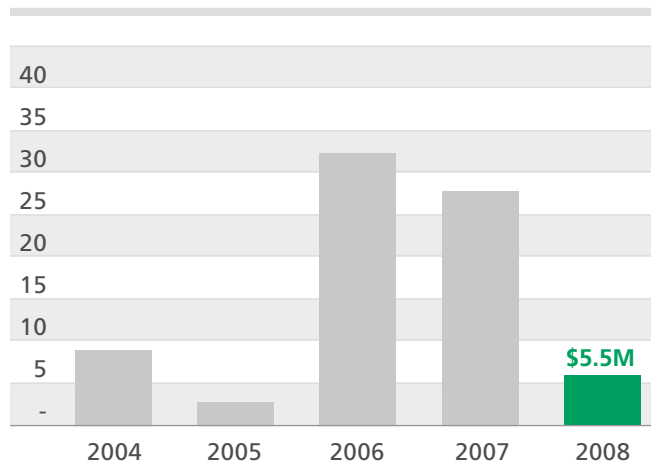
**Asset Growth** (in millions)



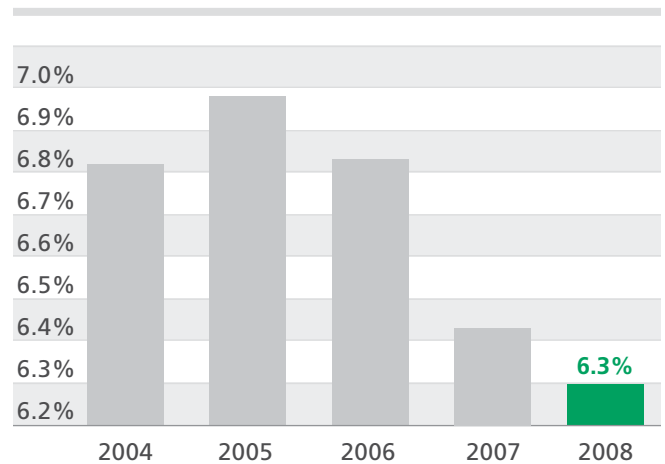
**Loan Growth** (in millions)



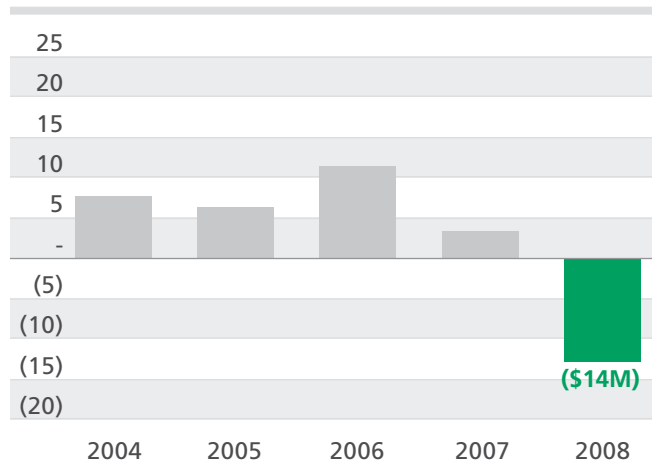
**Deposit Growth** (in millions)



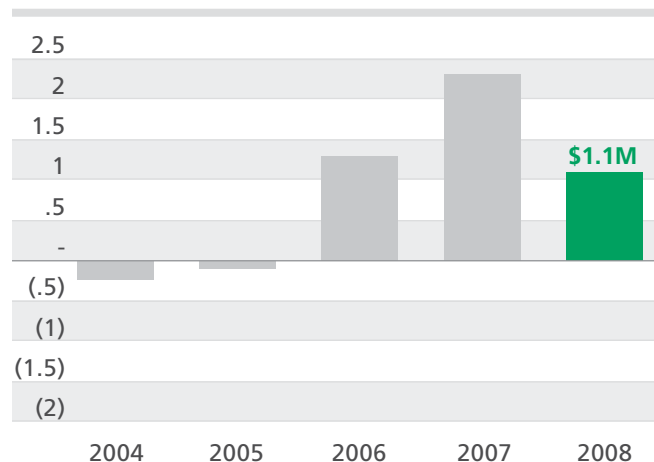
**Capital** (percentage)



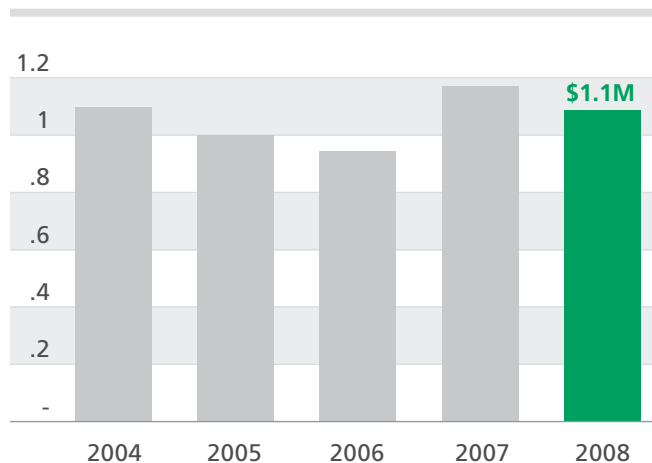
**Off-Book Asset Growth** (in millions)



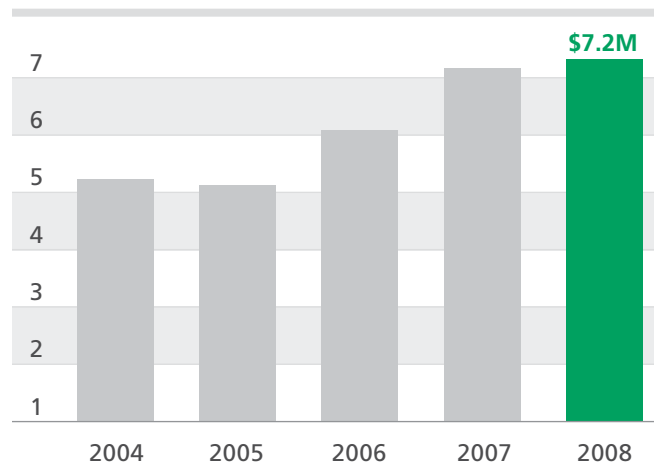
**Revenue Growth** (in millions)



**Earnings Before Tax** (in millions)



**Distribution to Members** (in millions)





Gregory Peres, CA, CEO

## CEO PERSPECTIVE

2008 will be remembered for the global events that negatively impacted each and every one of us. We all felt the pressures as our retirement savings and pensions along with our home values were at risk because of the world wide financial crisis. While financial markets tumbled 40% during the year, housing prices were in a free fall in the United States, and the credit and liquidity problems brought down venerable financial organizations. We watched in shock and wondered how things could deteriorate so quickly. **These are challenging times indeed!**

During this period, your credit union watched closely at the events unfolding and made sure our business plans and risk management practices were appropriate for the economic climate we were in. I am pleased to report that while the economy was slowing, your credit union continued to meet members' financial demands by providing sound financial advice and competitively priced products and services. With our focus on the member, we ended the year with good asset growth and returned a reasonable profit. We remained disciplined in our approach to business by:

- following prudent lending practices;
- ensuring our internal risk management policies were being followed; and
- not investing in market segments that were deemed to have a high level of credit risk.

*As a member you should feel confident that your credit union has managed the business responsibly during these tough economic times and that your deposits with Community First remain insured and safe.*

Even though we followed our business plan and core principles as a credit union, it was impossible to totally escape the impact the economic events had on our business. Following are some of the highlights that impacted our business model:

- As a result of the business combination of Credit Union Central of Ontario (CUCO) and Credit Union Central of British Columbia (CUCBC), all member credit unions of CUCO were required to purchase a proportionate share of asset-backed commercial paper from CUCO's balance sheet. These assets were transferred to a limited partnership and Community First purchased units in this partnership. This was a condition of merger and a decision that was supported by 99% of the credit unions. The vast majority of these investments present a strong credit profile, which bodes well for ultimate recovery. Because of this high quality, our strategy is to hold these investments to maturity so that we increase the likelihood of return of capital and accrued interest. At year-end, we adjusted these assets down to fair market value.
- In order to stimulate the economy, the Bank of Canada reduced short-term interest rates. Bank prime rate decreased from 6.00% to 3.50% in the course of the year. While this has been great for the borrower, the credit union's financial margin was lower than anticipated in the business plan. Our strategy was to maintain a balance of offering competitive deposit rates while maintaining a margin that would provide reasonable earnings to the credit union.
- Even though housing prices in the United States and southern Ontario declined, the residential markets in both

Timmins and Sault Ste Marie remained strong throughout the year. In both of these communities there is an even balance between houses for sale and demand for these homes. This is an important point as a significant portion of our credit portfolios are mortgage backed. As a result, our credit portfolios overall are low credit risk.

Management continues to monitor the economic climate very carefully and will make decisions based on a balance of member fairness and ensuring the credit union remains financially healthy for the future.

### **2008 – Year in Review**

Community First continued to grow in all areas of services to our members. Total loan and mortgage portfolios grew by 7.7% year over year. This growth demonstrates our dedication and commitment to providing competitive, professional services and options to our members. In the personal segment, total member loans increased by 6.2%. As a result of short-term interest rates declining, members chose variable rate mortgages and loans to take advantage of the lower interest rates. Members continued to consolidate their debts during 2008 and chose to use their homes as security to get the best interest rate. Our personal mortgage portfolios do not contain any sub-prime mortgages and only includes first mortgages on residences located in Ontario.

Our auto dealer-financing segment completed its second successful year and to date the portfolio has grown to \$4.6 million. We are very pleased with this business line and

while the current economic climate in 2009 will create some challenges, the Credit Union will only fund loans that are of the highest quality.

Member deposits including accrued interest increased \$5.5 million or 2.1% over the prior year. This growth was below budget. Our lending portfolios were funded with our borrowing facilities.

The business services department was very busy during the year assisting commercial members in various industries. Overall, the business services portfolio increased 11.7% or \$7.6 million over the previous year.

Interest earned by members totaled \$7.2 million for the year. This is exceptional given the decline in interest rates during the year. Our practice is to give the member the best rate on their investments and to pay a market rate on every dollar deposited in the credit union.

Your credit union had to set aside additional dollars for two commercial loans that are in default. This resulted in an increase in our provision for impaired loans.

Our wealth management area continued to grow and develop diversified portfolios for members. The assets under administration declined during the year as a result of the decline in financial markets. Our professionals focused much of their time on our existing clients helping them understand what was happening to their investments and making changes to their portfolios as required.

Operating expenditures increased by less than 1% year over year. This demonstrated strong fiscal management. Net earnings for the year were \$927,099. This is a strong performance given the current economic environment. As well, our liquidity levels at year-end were at a very efficient level and the Credit Union continues to be well capitalized, which allows for future growth and investment.

During the year, the Credit Union participated in the Great Place to Work Initiative. This was an opportunity to survey our employees and find out how they felt about their work environment and what needed to be worked on. We were very pleased with the results as we scored very high on employee satisfaction. Management met and reviewed the results and developed action plans to address areas that we wanted to improve on. Our goal is to make this credit union an exceptional place to work, which will result in exceptional service to the members.

We completed the bank conversion project that migrated the separate banking systems of Community First and the former Timmins Regional into one banking platform. This is a very positive step forward and a significant technology investment to ensure we are positioned for future growth. Like any conversion of this magnitude, we have had a number of issues that we have had to deal with since converting. These issues are relatively minor and all delivery channels and member balances and transactions have operated to a very high level.

I would like to thank the employees for their hard work and dedication this year. It has been an exceptional and demanding year and we could not have done it without the excellent team we have here at Community First.

Respectfully submitted,



Gregory Peres, CA  
Chief Executive Officer

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for the preparation of the consolidated financial statements of the Credit Union in accordance with generally accepted accounting principles. The summarized financial statements presented in the annual report are derived from the complete consolidated financial statements of Community First Credit Union Limited as at December 31, 2008 and for the year then ended.

Management maintains a system of internal controls designed to provide reasonable assurance that relevant, reliable, and timely information is produced. This system provides reasonable assurance that transactions are authorized, assets are safeguarded and proper records and controls are maintained. These controls are reviewed by internal and external auditors and results are reported directly to the Audit Committee.

The Board of Directors and Audit Committee, in carrying out their responsibility, have reviewed and approved the consolidated financial statements. The auditors have full and free access to, and meet periodically with the Audit Committee.

Grant Thornton LLP, Chartered Accountants, the external auditors, have responsibility for auditing the consolidated financial statements and their report is included.



Eugene Orlando, CA  
Chief Financial Officer



Gregory Peres, CA  
Chief Executive Officer

## AUDITORS' REPORT ON SUMMARIZED FINANCIAL STATEMENTS

To the Members of Community First Credit Union Limited,

The accompanying summarized consolidated balance sheet and consolidated statements of earnings, retained earnings, accumulated other comprehensive loss and comprehensive income and cash flows are derived from the complete financial statements of Community First Credit Union Limited as at December 31, 2008 and for the year then ended on which we expressed an opinion without reservation in our report dated March 18, 2009. The summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying financial statements fairly summarize, in all material respects, the related complete financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the entity's financial position, results of operations and cash flows, reference should be made to the related complete financial statements.



Grant Thornton LLP  
Chartered Accountants  
Licensed Public Accountants

Sault Ste. Marie  
Canada  
March 18, 2009

## SUMMARIZED CONSOLIDATED BALANCE SHEET

| As at December 31                            | 2008                  | 2007                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>                                |                       |                       |
| Cash and investments                         | \$ 28,717,597         | \$ 27,172,150         |
| Accrued interest receivable                  | 1,087,380             | 965,462               |
| Loans to members, net                        | 252,300,612           | 234,242,416           |
| Other assets                                 | 12,029,651            | 11,231,603            |
|  | <b>\$ 294,135,240</b> | <b>\$ 273,611,631</b> |
| <b>Liabilities and Equity</b>                |                       |                       |
| Members' deposits                            | \$ 260,588,627        | \$ 255,121,625        |
| Term loans                                   | 14,000,000            | -                     |
| Liabilities to non-members and other         | 1,010,774             | 862,348               |
|  | 275,599,401           | 255,983,973           |
| Liabilities qualifying as regulatory capital | 3,987,985             | 4,066,798             |
| Contributed surplus                          | 1,315,305             | 1,315,305             |
| Retained earnings                            | 13,255,994            | 12,328,895            |
| Accumulated other comprehensive loss         | (23,445)              | (83,340)              |
|  | 13,232,549            | 12,245,555            |
|  | <b>\$ 294,135,240</b> | <b>\$ 273,611,631</b> |

Note: Complete consolidated audited financial statements along with accompanying notes and all required disclosures are available for download at [www.communityfirst-cu.com](http://www.communityfirst-cu.com). Printed copies are also available at any Community First branch location.

## SUMMARIZED CONSOLIDATED STATEMENT OF EARNINGS

| Year Ended December 31                  | 2008                   | 2007                   |
|---|------------------------|------------------------|
| <b>Revenue</b>                          | \$ 15,017,873          | \$ 14,239,562          |
| Cost of financing                       | 7,398,089              | 6,962,660              |
| Provision for impaired loans            | 7,619,784<br>(445,695) | 7,276,902<br>(263,133) |
| <b>Financial margin</b>                 | <b>7,174,089</b>       | 7,013,769              |
| Other revenue                           | 3,336,570              | 3,052,607              |
|   | 10,510,659             | 10,066,376             |
| Other expenses                          |                        |                        |
| Amortization                            | 680,355                | 661,321                |
| Automated networks                      | 950,602                | 896,273                |
| General and administration              | 1,481,543              | 1,465,028              |
| Insurance                               | 360,008                | 325,457                |
| Loan costs                              | 88,334                 | 99,150                 |
| Occupancy                               | 627,001                | 593,587                |
| Salaries, wages and benefits            | 4,586,039              | 4,671,750              |
|   | <b>8,773,882</b>       | 8,712,566              |
| <b>Earnings before the under-noted</b>  | <b>1,736,777</b>       | 1,353,810              |
| Dividends                               | 75,240                 | 203,396                |
| Write-down on value of Central 1 Shares | 122,420                | -                      |
| Share of loss of Limited Partnership    | 404,941                | -                      |
|   | <b>602,601</b>         | 203,396                |
| <b>Earnings before income taxes</b>     | <b>1,134,176</b>       | 1,150,414              |
| Income taxes                            | 207,077                | 233,435                |
| <b>Net earnings</b>                     | <b>\$ 927,099</b>      | \$ 916,979             |

**SUMMARIZED CONSOLIDATED STATEMENT OF RETAINED EARNINGS,  
ACCUMULATED OTHER COMPREHENSIVE LOSS, AND COMPREHENSIVE INCOME**

| Year Ended December 31   | 2008          | 2007          |
|--|---------------|---------------|
| <b>Retained Earnings</b>   |               |               |
| Balance, beginning of year                                       | \$ 12,328,895 | \$ 11,411,916 |
| Net earnings for the year  | 927,099       | 916,979       |
| Balance, end of year   | \$ 13,255,994 | \$ 12,328,895 |
| <b>Accumulated Other Comprehensive Loss, net of income taxes</b> |               |               |
| Balance, beginning of year                                       | \$ (83,340)   | -             |
| Transitional adjustment on adoption of new accounting policy     | -             | \$ (216,251)  |
| Reclassification to net income:                                  |               |               |
| Loss on cash flow hedge  | 50,972        | 132,411       |
| Realized loss on available for sale investments                  | 8,923         | 500           |
| Balance, end of year   | \$ (23,445)   | \$ (83,340)   |
| <b>Comprehensive Income</b>                                      |               |               |
| Net earnings for the year  | \$ 927,099    | \$ 916,979    |
| Other comprehensive income, net of income taxes                  |               |               |
| Change in cash flow hedge  | 50,972        | 132,411       |
| Change in unrealized loss on available for sale investments      | 8,923         | 500           |
| Other comprehensive income for the year                          | 59,895        | 132,911       |
| Comprehensive income for the year                                | \$ 986,994    | \$ 1,049,890  |

## SUMMARIZED CONSOLIDATED STATEMENT OF CASH FLOWS

| Year Ended December 31                                  | 2008         | 2007         |
|---|--------------|--------------|
| <b>Operating activities</b>                             |              |              |
| Net earnings  | \$ 927,099   | \$ 916,979   |
| Non-cash items  | 90,993       | (811,993)    |
|   | 1,018,092    | 104,986      |
| <b>Financing activities</b>                             |              |              |
| Members' deposits                                       | 5,467,002    | 27,504,301   |
| Member capital accounts, net                            | (78,813)     | (74,144)     |
| Increase in term loans                                  | 14,000,000   | -            |
|   | 19,388,189   | 27,430,157   |
| <b>Investing activities</b>                             |              |              |
| Loans to members  | (18,201,860) | (24,240,583) |
| Purchase of property and equipment                      | (988,112)    | (783,818)    |
| Other   | (1,011,529)  | (2,766,736)  |
|   | (20,201,501) | (27,791,137) |
| <b>Increase (decrease) in cash and cash equivalents</b> | 204,780      | (255,994)    |
| <b>Cash and cash equivalents, beginning of year</b>     | 7,457,100    | 7,713,094    |
| <b>Cash and cash equivalents, end of year</b>           | \$ 7,661,880 | \$ 7,457,100 |

## AUDIT COMMITTEE REPORT

Community First's Audit Committee was formed pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 (Ontario). The committee, composed of Board of Director members, has oversight responsibility for the Credit Union's financial reporting processes and the quality of its financial reporting. A written mandate prescribes the committee's objectives and responsibilities and how it functions. The committee met throughout the year to receive reports from management, internal auditors, compliance auditors and Grant Thornton LLP, our external auditors.

The committee, which meets at minimum quarterly reviewed and discussed the following significant items: Internal Auditors Reports, Operational Risk Management Policy, Liquidity Management Policy, Capital Management Policy, Structural Risk Management Policy, Credential Asset Management Compliance Audit, Anti-Money Laundering Policy, Insurance Risk Management Review, Commercial Credit Audit and Interac Security Compliance Review. These reviews were performed to ensure proper safeguarding of the Credit Union's assets and adherence to policies.

The committee reviewed the business case, presented by management, supporting a full time internal audit function and approved the 2008 internal audit plan.

Senior management presented to the committee the scope and impact of adopting International Financial Reporting Standards. The committee supports the adoption of these standards within the prescribed time table.

The committee also reviewed and approved representations as provided by Management, confirming that the operations

of the Credit Union are being managed in accordance with the Deposit Insurance Corporation of Ontario (DICO) Standards of Sound Business and Financial Practices as outlined in DICO By-law No. 5.

The external auditors (Grant Thornton, LLP) presented the 2007 audited financial statements of Community First Credit Union Limited as well as the 2007 audited financial statements for the Retirement Pension Plan for the Union Employees of the Credit Union, along with their audit findings and disclosures.

Based on its findings, the Audit Committee makes recommendations to the Board of Directors or Senior Management, and follows up to ensure that the recommendations are considered and implemented, as appropriate.

The Audit Committee is pleased to report to the members that the Committee is functioning in accordance with the Act. Through the full co-operation and support of management, it continues to play an effective role in ensuring the quality of financial reporting and enhancing overall control over the operations of the Credit Union.

There are no significant recommendations made by the Audit Committee that have not been either implemented or in the process of being implemented. There are no issues the Committee believes should be reported and no matters that would require disclosure pursuant to the Act or the Regulations thereto.

**Respectfully submitted on behalf of the Committee,**

David Pettalia *Chair*, Jim Bowman *CA*, David MacDonald, Paolo Merenda, Louise Provenzano and Pat Roden

## CREDIT COMMITTEE REPORT

### 2008 Loan Applications    Number Granted    Amount Granted\*    Number Denied    Total Number

|                  |     |         |    |     |
|------------------|-----|---------|----|-----|
| Personal Loans   | 637 | \$ 8.8  | 59 | 696 |
| Mortgage Loans   | 255 | \$ 21.4 | 10 | 265 |
| Commercial Loans | 249 | \$ 27.3 | 13 | 262 |
| Lines of Credit  | 596 | \$ 13.7 | 30 | 626 |

\*In millions

|   | 2008         | 2007        |
|---|--------------|-------------|
| Delinquent Loans Over 90 Days                 | \$ 2,173,834 | \$1,195,911 |
| Delinquent Loans Over 90 Days (# of accounts) | 42           | 65          |

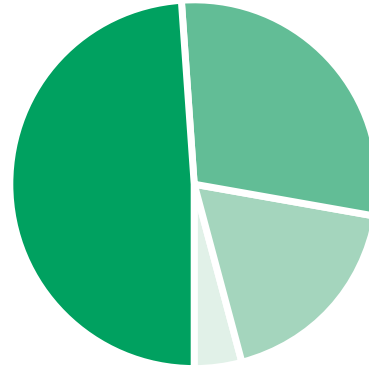
Respectfully submitted on behalf of the Committee,

George Willoughby *Chair*, Vic Bertolo, Domenic Ferrone, Wayne Lee, Norm Nankervis, Patrick Praysner and Barb Welin

## COMMUNITY INVESTMENT

The board, management and staff of Community First Credit Union are committed to our Guiding Principle - Community Ties, whereby *"we care for and support the people and community we serve"*. We are proud to support causes that matter most to our members such as health-care, education, youth programs, culture and social agencies. In 2008, Community First invested approximately \$55,000 (roughly 5% of our pre-tax earnings) to various charitable organizations in our communities. Our support is provided in the form of donations, sponsorships, gifts-in-kind and employee volunteerism. As well, our branches participated in a variety of initiatives in 2008 – above and beyond our formal Community Investment Program.





■ 49% Healthcare   ■ 29% Education/Youth Programs  
■ 18% Culture   ■ 4% Other

Commencing in 2010, the Community First Credit Union Bursary through The Northern Ontario School of Medicine will be given to a Northern Ontario student studying to become a doctor.

By providing this financial assistance we hope more physicians will practice in Sault Ste Marie and Timmins. This \$100,000 investment will provide a \$5,000 bursary to a qualifying student in the fall of 2010.

In addition, The Community First Credit Union Mildred Krmpotich Memorial Scholarship awards \$1,000 each year to a recipient in financial need enrolled in a first year business program at Sault College.

We are pleased to be able to support education through these two bursaries.



As a result of CFCU's commitment to the Community Investment Program, The Canadian Centre for Philanthropy's Imagine Program designated Community First as a Caring Company.

**Working towards financial comfort;  
Simplicity, Convenience, and Increasing your Net Worth.**

**At Community First, You Matter.**

For more information visit us at:  
[www.communityfirst-cu.com](http://www.communityfirst-cu.com)

Or stop in at the nearest branch:

**289 Bay Street**  
Sault Ste. Marie, Ontario  
Canada P6A 1W7

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**Toll Free:** (866) 942-2328  
**Fax:** (705) 946-2363

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