

Annual Report 2008





2008
Annual Report

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Minutes of the Annual General Meeting

7:00 p.m. April 2, 2008

Royal Canadian Legion Branch 76, Sudbury, ON

Mission: *Northridge Savings & Credit Union is a community based financial cooperative providing cost-effective financial products and services to people and businesses in Greater Sudbury in a friendly, professional, and personal manner.*

Vision: *Northridge Savings & Credit Union will be the first choice for financial services and will be recognized as a distinguished partner with our members and our community.*

Values: **Caring** **Organized** **Open minded** **Professional** **Ethical**
Responsible **Accountable** **Teamwork** **Integrity** **Visionary**
Excellence

Registration

The meeting was attended by 39 members and 3 guests:

- ✿ Richard Spadafora, auditor - KPMG
- ✿ Stevens Horton, legal counsel - Weaver, Simmons
- ✿ Claudette Strom, Branch Manager - Northern Credit Union

Call to Order

President Labelle called the meeting to order at 7:04 p.m.

Chair's Opening Remarks

A warm welcome was extended to all in attendance and special guests were noted. A moment of silence was held in memory of Steve Frattini.

Establishment of Quorum

A Quorum was established.

Minutes of Last Meeting (April 11, 2007)

Motion: That the minutes of the annual meeting of April 11th, 2007 be accepted as presented.

Moved: E. R. Unger Seconded: N. Sauter

CARRIED

Motion: That we dispense with the reading of the reports except for the auditors' report.

Moved: B. McNally Seconded: L. La Croix

CARRIED

Directors' Report

President Labelle made a point of what is really important in the world by telling two stories. The first dealt with comparing life-and-death struggles in war ravaged countries with Canadians' concerns over taxation. The second illustration (Bricks and Bricklayer story) also helped make the point that we need to distinguish between inconveniences and problems.

Motion: That the Director's report be received.

Moved: L. Racette Seconded: R. Abreu

CARRIED

Auditors' Report

Mr. R. Spadafora of KPMG read the auditors' report. The unqualified report reflected the fact that Northridge Savings and Credit Union had enjoyed another good year.

Moved: V. LaFlamme Seconded: A. Frattini

CARRIED

General Manager's Report

Mr. Erik Jokinen summarized and explained the financial statements included in the Annual Report both graphically and verbally. Rebates to members on interest paid on personal loans of 3% and 1.5% on personal mortgage loans was emphasized, thanks to the hard work of staff resulting in a successful year. Loans, deposits, and interest income have resulted in Northridge having a present value of \$45 million. Our after-tax earnings have increased 62% from the previous year.

Mr. Hank Haneberry questioned when depositors will see some of the profits Northridge is sharing with loan-holders. Mr. Erik Jokinen and Mr. Gerry Labelle responded that it is customary to give rebates to those who are responsible for most of the profits, i.e. members paying interest on their loans.

Mr. Hank Haneberry questioned the amount of monies spent on Board expenses. Mr. Gerry Labelle explained that the 2008 Board Planning session was held in the same fiscal year, making 2 planning sessions within the 12-month period, and that extraordinary expenses were incurred due to special meetings pertaining to the merger between Ontario Central and BC Central. Mr. Haneberry suggested that expenses be noted per director for future meetings. This was taken under advisement and will be considered by the Board.

Ms. Raymonde Lafortune expressed concern over losing the personalized service now enjoyed by Northridge members when the merger between Ontario and BC Centrals is completed. She was assured by both Mr. Gerry Labelle and Mr. Erik Jokinen that the merger will not affect the internal workings at Northridge.

The seriousness, expense and time-consumption of Debit Card Fraud, along with members' personal responsibility to prevent fraud was emphasized. In addition to keeping computer security software up to date, members can take a little extra time and caution by putting their hand over the PIN pad, shredding addressed 'junk mail' and being aware of their own account activity.

The Desjardins Banking System is under consideration to be adopted by Northridge in the near future. There will be benefits to members and staff in the level of service available from Desjardins - call centre available 24/7, support for lost/stolen cards, ATM benefits in eliminating member surcharges at Caisse Populaire.

Review of Financial Statements

Mr. Erik Jokinen summarized and explained the financial statements included in the Annual Report both graphically and verbally.

Motion: That the General Manager's and Financial Reports be accepted as presented.

Moved: M. Teskey Seconded: L. Racette

CARRIED

Audit Committee Report

Mr. Pat McNally submitted the Audit Committee Report regarding internal policies and procedures and the external auditor's findings.

Motion: That the Audit Committee's Report be accepted as presented.

Moved: P. McNally Seconded: E.R. Unger

CARRIED

Loan Report

Mr. Erik Jokinen noted that there were 572 loans for 2007 totaling \$19,192,952.

Motion: That the Loan Report be accepted as presented.

Moved: L. Racette Seconded: R. Lafortune

CARRIED

Marketing Report

Mr. David Lepage presented the marketing report, detailing activities and funds raised for specific charities throughout the year.

Motion: That the Marketing Report be accepted as presented.

Moved: N. Sauter Seconded: V. LaFlamme

CARRIED

Privacy and Compliance Report

Mr. David Lepage reported that all Privacy and Compliance requirements are up to date. Required training has been completed.

Motion: That the Privacy and Compliance Report be accepted as presented.

Motion: J. Lamirande Seconded: L. La Croix

CARRIED

Credential Asset Management Report

Mr. Pat Brady reported a great year in investments and returns. Thanks was extended to staff for their support.

Motion: That the Credential Asset Management Report be accepted as presented.

Moved: R. Abreu Seconded: A. Frattini

CARRIED

Appointment of Auditors

President Labelle called for a motion to re-appoint KPMG as our auditors for 2008.

Motion: That KPMG be retained as auditors for Northridge Savings and Credit Union in 2008.

Moved: L. Racette Seconded: P. McNally

CARRIED

The Chair was handed over to Ms. Lisa La Croix for Election of Members to the Board.

Election of Members to the Board

An election was called to fill the seats on the Board for those members whose terms have expired.

- ✓ Anna Frattini was nominated by R. Abreu
- ✓ Pat McNally was nominated by L. Racette
- ✓ Gerry Labelle was nominated by E.R. Unger
- ✓ No nominations were offered from the floor

Nominations for the Board of Directors were closed. Incumbents were all acclaimed. An opportunity was made available for each to say a few words.

The Chair was returned to G. Labelle.

Other Business

Mr. Erik Jokinen presented long service awards to employees:

- ✚ 10-year pin presented to Joanne Lamirande
- ✚ 20-year pin presented to Kelly Mihaichuk-Smith
- ✚ 35 year pin presented to Patti Guy
- ✚ Special mention was made regarding Retiree Bev Boyuk.

H. Haneberry extended his congratulations to the Board for funds raised for Camp Quality and to G. Labelle for winning the federal Conservative nomination.

Adjournment

Motion: That the meeting be adjourned at 7:49 p.m.

Moved: H. Haneberry

After adjournment, those in attendance were invited to pledge financial support to Mr. P. Brady in having his head shaved during the month of April in support of the Canadian Cancer Society.

Draws were made for various prizes from names of members in attendance. Prizes included lottery tickets, bar set, items of clothing and a soft-sided briefcase.

A social and refreshments followed the meeting.



Secretary



President

Report of the Board of Directors

As I embark on what will be my final year as president, as allowed under our bylaws, I would like to say hello and thank you on behalf of the Board of Directors, for allowing us to serve as your Board of Directors over the past year.

What a difference a year makes. It is in a totally different environment in which I present this report than the one in which it was initially conceived. You see at our last annual meeting we were celebrating what had been a banner year for Northridge Savings and Credit Union. We were encouraged by the Credit Union's continued strong past performance and were excited as we looked forward to new opportunities for growth.

Our goal, when we embarked on this journey last year, was to match if not surpass 2007's performance. And for the record, we did that. We experienced unprecedented growth in 2008.

While we concede that the local economy had a large role to play in that growth we also need to be aware that the steady increases in both assets and loan totals this past year are due in large part to sound stewardship. I refer here to the management team and the staff. I also place a large part of that successful yet cautious approach squarely on the shoulders of the general manager who consistently has this Credit Union member's welfare at heart.

The stewardship is further assured by the board of directors who don't mind questioning reasons, policy, politics and making the tough decisions when necessary. Because of the sudden and unprecedented downturn in the economy, this board of directors will earn their keep over the next twelve months as we look at taking action and developing policy to protect our members against the potential pitfalls that such an environment presents.

There is often the feeling in these times that we need to close in on ourselves and become more conservative, or not lend money, or not trust people. That goes against everything that the Credit Union movement stands for.

Yes we will have challenges, and yes they will be dealt with in a logical, compassionate and expeditious manner with the goal of creating win-win situations for the membership and the Credit Union as a whole. This means that every situation is looked at individually which has always been our approach. I am proud to say that after all the years we have been in business we remain committed to still being: "people helping people."

Today's Credit Union must look at clarifying its purpose, assessing the competition and building on its strengths. The Board is committed to growing our membership. We constantly challenge the staff to identify new markets and possibly expand our services.

Our risk-based lending policy, coupled with an aggressive pro-active approach to mitigating collection stance, keeps delinquency rates at a low manageable threshold. We are strong and we continue to be focused on giving you, our members, the best possible service.

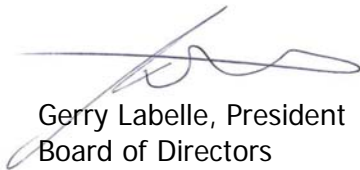
To this end we have embarked on a series of initiatives such as our newsletter and sponsorship programs. We are still a very important partner of Camp Quality and the fantastic work they do as well as the Northern School of Medicine. We attempt to keep our members informed about new products and the changing economy. And more recently we embarked on an advertising campaign. All these are meant to increase our profile in the community and to remind you our members that you are not just a number to us.

On a national basis, the Merger between Ontario and BC Centrals was completed and resulted in a new organization Central 1 being created. This year the conference will be in Vancouver and we will be there to represent Northridge Savings and Credit Union at this historic first meeting. These opportunities allow us to meet other Credit Unions and discuss how we can improve our services, grow our membership and expand our product line.

We head into 2009, not with an air of trepidation but one of hope, that all of the hard work that we have put into our Credit Union will prove to be beneficial. We believe we have the proper checks, balances, staff and stewards in place to see us through what can only be considered as "Interesting Times". I am proud to say that we remain committed to these goals. Seventy years strong, we are still "people helping people."

I wish to take this opportunity to recognize the diligent work of our board and thank them for keeping the meetings interesting and the Chair focused.

Respectfully submitted,



Gerry Labelle, President
Board of Directors



On the left, 2008's Camp Quality BBQ took place on a beautiful day in June at both branches and raised \$5,500 for the charity.

In December, the Bake Sale held at the LaSalle branch raised over \$2,000.



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Auditors' Report to the Members

We have audited the balance sheet of **Northridge Savings & Credit Union Limited** as at December 31, 2008 and the statements of earnings, changes in members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Credit Union taken as a whole. The current year's supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants

Sudbury, Canada
January 21, 2009



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss incorporating association.

Report of the General Manager

I am pleased to report that your credit union enjoyed another successful year in terms of income and growth, even though we faced tough economic times, especially in the latter part of 2008. Assets increased by 19.1% to \$51,044,312. Loans and member deposits were up 11.7% and 19.7% respectively. Loan demand decreased considerably by year-end as members continued to be cautious about their discretionary spending and having concerns about their future employment. We have witnessed a mild turn-around in the first quarter of 2009 and sincerely hope that the balance of the year will improve for all concerned. The board of directors has set aside approximately \$45,000 for the possible distribution to members by way of interest rebates. However, they are also taking a cautious and prudent approach to its payment. The final decision will be based on the economic situation in the area and the financial trend in the business community.

The merger with BC Central and Ontario Central was completed at mid-year and is now called Central 1 Credit Union. Credit unions in both provinces now have better access to liquidity, stronger lobbying efforts for the betterment of the system and specialized administrative support. Central 1 is currently discussing with government officials, the benefits of increasing member deposit insurance from \$100,000 to be better aligned with most of the other provinces. The merger did cause some pain as well. Northridge had to write-down its Central shares by \$19,300 and its involuntary investment in the asset backed commercial paper by \$63,800. We do, however, anticipate that we might recover some of these funds at a later date. The good news is that our cost for Central membership dues has been substantially reduced and that we will receive a competitive return on our investment shares. Overall, credit unions will be stronger in both provinces.

Last year we informed you that we would probably be moving to the Desjardins banking platform. However, that initiative died in the spring. Desjardins did an in-depth review and concluded that they could not adapt its banking platform to the numerous credit union business models in the province and provide a viable service from an operational and financial perspective. CGI, our current system supplier, has renewed their commitment to continue providing banking services to credit unions now and well into the future. CGI will also be enhancing their current suite of products for improved functionality and variety.

Northridge has entered into a new compliance regime for money laundering and terrorist activity financing as required by government directive. This includes the installation of additional policies and procedures and assessment and documentation of their risks. Of course, this becomes an added burden for our administrative staff but will prevent and/or reduce criminal activity.

New accounting standards are being introduced to replace GAAP by January 1, 2011 called International Financial Reporting Standards (IFRS). The new standards will impact financial institutions' capital and bottom lines. Disclosure requirements will also be more extensive. The intent is to come to a common global financial reporting language that will provide investors with sufficient information to make sound decisions. We have started the process to move to this new standard and hope to be fully compliant well before the required switch over.

We are now in the process of moving to chip technology in collaboration with our banking supplier (CGI) and their partners. We need to determine the type, style and timing of the MemberCard debit card replacement and whether any of our ATMs require upgrades or total replacement. The chip card will provide enhanced security to members, merchants and financial institutions by greatly reducing the ability of criminals to commit fraud. More information will be provided to the members as we move closer to this new technology.

We look forward to the challenges of the coming year and beyond. We are prepared to meet them all through the guidance of the board of directors, the untiring efforts of staff and the continued loyalty of the members. We will strive to continue to improve our services and product offerings for the membership and to provide them with service that's second to none and at competitive pricing. My sincere thanks are extended to each and every one of you.

Respectfully submitted,



Erik K. Jokinen
General Manager



Above, Member Chip Cards are the wave of the future.

On the left, Northridge rolled out Mobile Banking to our membership. Members can receive balances and account transactions directly on their cell phone.

Northridge Savings & Credit Union Limited

BALANCE SHEET

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Cash	\$ 4,000,209	\$ 718,866
Loans to members (note 3)	41,269,170	36,934,751
Other assets	57,361	86,502
Investments and marketable securities (note 4)	4,066,009	3,357,483
Property, plant and equipment (note 5)	1,598,661	1,720,792
Income Taxes Receivable	8,902	-
Future income taxes (note 10)	44,000	35,200
	\$ 51,044,312	\$ 42,853,594
Liabilities and Members' Equity		
Members' deposit accounts (note 6)	\$ 47,996,456	\$ 40,095,073
Liabilities to non-members:		
Accounts payable & accrued liabilities	154,964	137,915
Income taxes payable	-	33,454
	154,964	171,369
Liabilities qualifying for regulatory capital (note 7)	187,638	186,478
Members' equity	2,705,254	2,400,674
Commitments (note 11)		
Contingencies (note 14)		
	\$ 51,044,312	\$ 42,853,594

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

Northridge Savings & Credit Union Limited**STATEMENT OF EARNINGS**

Year ended December 31, 2008 with comparative figures for 2007

	2008	2007
Revenue:		
Interest		
- non-mortgage loans	\$ 778,928	\$ 767,514
- mortgage loans	1,930,419	1,560,954
- investment income	128,385	150,213
	<u>2,837,732</u>	<u>2,478,681</u>
Cost of financing:		
Interest		
- registered retirement savings plan	176,585	143,669
- term deposits	655,424	459,595
- deposits	71,793	66,847
- registered retirement income funds	58,506	61,544
- interest rebate and dividends	45,000	40,000
	<u>1,007,308</u>	<u>771,655</u>
Net interest income	1,830,424	1,707,026
Provision for impaired loans (note 3c)	24,000	24,408
Net interest income after provision for impaired loans	1,806,424	1,682,618
Other revenue	465,868	468,735
	<u>2,272,292</u>	<u>2,151,353</u>
Non Interest Expenses: (Schedule)		
Salaries and benefits	905,968	844,857
General	344,134	352,438
Computer, office and other equipment	217,160	230,305
Occupancy	196,606	191,705
Advertising and communications	89,135	85,620
Member security	66,209	57,671
	<u>1,819,212</u>	<u>1,762,596</u>
Earnings before the undernoted	453,080	388,757
Write-down of investments	(83,100)	-
Earnings before income taxes	369,980	388,757
Income taxes (note 10)		
Current income taxes	74,200	87,000
Future income taxes (recovered)	(8,800)	(35,200)
	<u>65,400</u>	<u>51,800</u>
Net earnings	\$ 304,580	\$ 336,957

See accompanying notes to financial statements.

Northridge Savings & Credit Union Limited
STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Balance, beginning of year	\$ 2,400,674	\$ 2,080,230
Adjustment for change in accounting policy	-	(16,513)
Net earnings	304,580	336,957
Balance, end of year	\$ 2,705,254	\$ 2,400,674

See accompanying notes to financial statements.

Northridge Savings & Credit Union Limited**STATEMENT OF CASH FLOWS**

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Operations		
Net earnings	\$ 304,580	\$ 336,957
Adjustments for:		
Depreciation and amortization	151,122	160,873
Provision for impaired loans	24,000	24,408
Write-down of investments	83,100	-
	<u>562,802</u>	<u>522,238</u>
Change in non-cash working capital		
Other assets	29,141	(71,877)
Future income taxes	(8,800)	(35,200)
Accounts payable and accrued liabilities	17,049	(65,228)
Income taxes	(42,356)	30,020
	<u>562,802</u>	<u>379,953</u>
Financing activities:		
Net change in members' deposit accounts	7,901,383	2,900,700
Net change in membership shares	1,160	2,818
	<u>7,902,543</u>	<u>2,903,518</u>
Investing activities:		
Net change in loans to members	(4,358,419)	(4,591,115)
Purchase of equipment	(28,991)	(131,925)
Investments	(791,626)	(585,770)
	<u>(5,179,036)</u>	<u>(5,308,810)</u>
Increase (decrease) in cash position	3,281,343	(2,025,339)
Cash, beginning of year	718,866	2,744,205
Cash, end of year	\$ 4,000,209	\$ 718,866

Supplemental cash flow information:

Income taxes paid - \$53,444 (2007 - \$56,980)

Interest paid - \$902,260 (2007 - \$669,068)

See accompanying notes to financial statements.

Northridge Savings & Credit Union Limited

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2008

Northridge Savings & Credit Union Limited (the "Credit Union") was incorporated on June 1, 1984 and operates in compliance with the Credit Union and Caisses Populaires Act of Ontario (the "Act"). The Credit Union is a member of Central 1 Credit Union ("Central 1") and the Deposit Insurance Corporation of Ontario ("DICO"). The Credit Union provides financial services and products to its members through two branches in the Greater Sudbury area.

1. CHANGE IN ACCOUNTING POLICY:

Effective January 1, 2008, the Credit Union adopted three new presentation and disclosure standards which are contained in Canadian Institute of Chartered Accountants Handbook Section 1535 - Capital Disclosures, Section 3862 - Financial Instruments - Disclosures, and Section 3863 - Financial Instruments - Presentation.

Section 1535 establishes guidelines for the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the entity's objectives as well as its policies and procedures for managing capital. Refer to Note 8 - Capital Management.

Sections 3862 and 3863 revise the previous Section 3861 - Financial Instruments, Disclosures and Presentation, and place an emphasis on disclosures related to the risks associated with financial instruments and how the entity manages those risks. Refer to Note 9 - Financial Risk.

Future Accounting Changes:

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Credit unions are specifically scoped into the definition of a publicly accountable enterprise. As such, the Credit Union will be required to prepare the December 31, 2011 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The Credit Union is currently in the process of assessing the differences between current accounting policies and those provided by IFRS, as well as the alternatives available on adoption. The assessment will include the potential impact of the conversion on accounting policies, information technology and data systems, internal controls over financial reporting, disclosure controls and procedures, financial reporting and business activities.

NOTES TO FINANCIAL STATEMENTS (continued)

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Credit Union have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by the Credit Union are as follows:

(a) Loans to members:

Loans to members are designated as loans and receivable and initially measured at fair value and are subsequently remeasured at their amortization cost (net of an allowance for loan losses) using the effective interest rate method. Loans considered uncollectable are written off.

All transaction fees and expenses are recorded in other income and expense at the transaction date.

(b) Allowance for impaired loans:

The Credit Union maintains allowances for impaired loans which reduce the carrying value of loans identified as impaired to their estimated realizable amounts. Loans classified as impaired include loans for which interest or principal payments are ninety days past due and those considered to be impaired by management. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

Specific allowances are established for loans identified as impaired. These allowances are supplemented by general allowances for losses based on payment arrears, known risk in the portfolio, historical loan loss experience and current economic conditions and trends. The allowance for impaired loans is in accordance with the guidelines established by The Deposit Insurance Corporation of Ontario.

(c) Financial Instruments - recognition and measurement:

Financial assets and liabilities are recognized on the balance sheet of the Credit Union at the time that the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union recognizes financial instruments at the settlement date.

All financial assets and liabilities are to be measured at fair value upon initial recognition, except for certain related party transactions. Subsequent measurement is dependent upon the financial instrument's classification

There have been no reclassifications or derecognition of financial assets during the year.

NOTES TO FINANCIAL STATEMENTS (continued)

(d) Effective interest method:

Interest income and expense are recognized in the Statement of Earnings using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to its fair value at inception. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

(e) Cash resources:

Cash resources comprise balances with less than 100 days maturity from the date of acquisition, including cash on hand, current accounts, short term deposits with other financial institutions and cheques and other items in transit. Cash resources have been designated as Held for Trading, except for short term deposits with less than 100 days maturity from the date of acquisition which are designated as Loans and Receivables, and are measured at fair value with all changes in fair value being recognized in interest income. Given their short term nature, the book value of cash resources, excluding short term deposits, is a reasonable approximation of fair value. Interest earned on these instruments is included in interest income and transaction costs are expensed as incurred.

(f) Financial instruments - non-derivative financial instruments:

Non-derivative financial instruments comprise cash, investments and marketable securities, loans to members, members' deposit accounts, and accounts payable and accrued liabilities.

Assets - Loans and receivables:

Non-derivative financial assets that have fixed or determinable payments are classified as loans and receivables. They are carried at amortized cost, using the effective interest rate method.

Assets - Held for Trading:

Non-derivative financial assets which the Credit Union has acquired principally for the purpose of selling or repurchasing in the near term, or are part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or are designated at fair value using the fair value option are classified as held for trading. These investments are recorded at fair value with changes taken directly to the statement of earnings.

NOTES TO FINANCIAL STATEMENTS (continued)

Assets - Available for Sale:

Non-derivative financial assets that the Credit Union may not hold until maturity are classified as available for sale and reported at estimated fair value. Unrealized gains and losses, after applicable taxes, are reported in Other Comprehensive Income. Non-marketable equity investments, which include investments in companies not traded on an active market and are part of the credit union system. These assets are accounted for using the amortized cost method.

The Credit Union reduces the carrying value when any declines in the value of investments are considered other than temporary and records the charge to earnings.

The Credit Union accounts for the purchase and sale of securities using settlement date accounting.

Assets - Held to Maturity:

Non-derivative financial assets which the Credit Union both positively intends and has the ability to hold to maturity are classified as investments held to maturity and are carried at amortized cost. Intent and ability to hold are not considered to be satisfied if an investment is available to be sold in response to changes in interest rates, prepayment rates or other reasons as part of the overall asset/liability management strategy.

Liabilities - Other Liabilities

The Credit Union has designated all financial liabilities as Other Liabilities. Financial liabilities designated as Other Liabilities are recorded at amortized cost. Interest incurred on these liabilities is included in interest expense.

(g) Comprehensive earnings:

In the event that the Credit Union has any financial instruments that would impact other comprehensive earnings, a statement of comprehensive earnings is included in the financial statements displaying the effects of the current period net income plus the impact on other comprehensive earnings resulting from these financial instruments.

(h) Other assets:

Other assets include prepaid expenses and accounts receivable.

NOTES TO FINANCIAL STATEMENTS (continued)

(i) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis over the expected useful life of the assets, as follows:

Buildings	40 to 50 years
Building renovations	10 to 15 years
Building additions	20 to 25 years
Parking lot	10 years
Furniture and equipment	3 to 5 years

(j) Income taxes:

The Credit Union uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that included the date of enactment or substantial enactment.

(k) Share capital:

The membership shares are classified on the balance sheet as a liability as the shares are redeemable at the options of the member. Accordingly, any dividends authorized on these shares are recorded as interest expense.

(l) Use of estimates:

The preparation of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Actual results could differ from those estimates. Significant estimates are made with regard to the potential loan loss on impaired loans and the valuation of property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS (continued)

(m) Equity swap agreements:

The Credit Union offers members term deposits whose rate is derived from a market index or basket of stocks. These Index-Linked term deposits offer principal guarantee and a variable rate of return contingent on the performance of equity markets.

The Credit Union enters into equity swap agreements to hedge the risk of interest payments due at the maturity date of index-linked term deposits. The equity swaps involve the Credit Union paying Central 1 a fixed rate of interest while Central 1 pays the return owed to members on the index-linked term deposits. The index-linked products are recorded at fair value with all changes in fair value recorded in income. Interest expense related to these products is expensed as incurred. The fair market value of the related option value and liability to members are included in other assets and payable and accrued liabilities.

(n) Foreign currency translation:

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 exchanges rates in effect on the date of the transactions. Exchange gains and losses arising on translation of monetary items are included in earnings for the year.

3. LOANS TO MEMBERS:

(a) Net carrying value of loans:

An analysis of the loan portfolio is as follows:

	2008			2007		
	Principal Value	Allowance	Net	Principal Value	Allowance	Net
Residential mortgages	\$ 30,791,447	-	30,791,447	25,864,638	-	25,864,638
Personal loans	8,415,051	38,517	8,376,534	8,834,654	83,004	8,751,650
Commercial						
- mortgage loans	1,824,759	-	1,824,759	1,956,051	-	1,956,051
- non-mortgage loans	316,173	-	316,173	362,412	-	362,412
	\$ 37,017,755	83,004	36,934,751	37,017,755	83,004	36,934,751

(b) Allowance for impaired loans:

The following table analyzes impaired loans and the related allowance for impaired loans:

	2008				2007	
	No. of Loans	Principal Value	Allowance	Net	No. of Loans	Net
Personal loans	3	\$ 22,747	21,688	1,059	10	23,023

NOTES TO FINANCIAL STATEMENTS (continued)

(c) Continuity of allowance for impaired loans:

The following table analyzes changes in the allowance for impaired loans:

	2008	2007
Balance, beginning of year	\$ 83,004	129,117
Provision for impaired loans	24,000	24,408
Loans written-off	(37,071)	(72,132)
Recoveries of loans written-off	8,327	1,611
Balance, end of year	\$ 78,260	83,004

(d) Maturity dates of loans:

The following table analyzes the Credit Union's loan portfolio by maturity date:

	Variable rates	Fixed rates		2008	2007
		Less than 1 year	1-20 years	Total	Total
Total loans	\$ 10,605,900	6,765,800	23,885,905	36,937,907	36,937,907
Average effective yield	7.97%	6.43%	6.30%	6.75%	6.94%

4. INVESTMENTS:

	2008			2007		
	Fair Value	Cost	Carrying value	Fair value	Cost	Carrying value
Available for sale:						
Central 1	\$ 359,683	\$ 378,984	\$ 359,683	\$ 316,468	\$ 316,468	\$ 316,468
2176100 Ontario Ltd.	219,677	283,477	219,677	-	-	-
Other	13,715	13,715	13,715	13,715	13,715	13,715
	\$ 593,075	\$ 676,176	\$ 593,075	\$ 330,183	\$ 330,183	\$ 330,183
Loans and receivables:						
Liquidity reserve deposit	3,501,579	3,472,934	3,472,934	3,029,895	3,357,483	3,027,300
Total investments	\$4,094,654	\$4,149,110	\$4,066,009	\$3,360,078	\$3,357,483	\$3,357,483

Central 1 Liquidity Reserve Deposit

As a condition of membership in Central 1, the Credit Union is required to maintain a liquidity reserve deposit at Central 1 equal to 7.00% of total assets adjusted annually at December 31st. The deposits bear interest at varying rates, dependent upon the term of the investment.

NOTES TO FINANCIAL STATEMENTS (continued)

Shares in Central 1

At a special general meeting held May 31, 2008, members of Credit Union Central of Ontario ("CUCO") approved a resolution to facilitate the merger of CUCO and Credit Union Central of British Columbia ("CUCBC") to form a new national financial services entity named Central 1 Credit Union ("Central 1"). Accordingly, the liquidity reserve deposits and investment in shares formerly held in CUCO are now held in Central 1.

On July 1, 2008, the date of the merger, CUCO sold substantially all of its assets to Central 1 in exchange for Class A and Class E shares. The final number of shares is subject to future price adjustments. CUCO distributed 1 Class A share to the Credit Union at that time and distributed 112,896 to Class A shares on December 31, 2008. On June 30, 2008 CUCO had a retained earnings deficit of \$25.2 million. After considering the estimated impact of the subsequent gain on sale of assets as a result of the merger, the Credit Union wrote down the value of CUCO shares by \$19,300 to represent its proportionate share of the deficit.

As a condition of membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1 equal to 0.8% of total assets adjusted annually at December 31st. During the year, prior to the merger, this requirement was increased to 0.9% representing additional shares in the amount of \$62,516. The shares of Central 1 may only be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the Credit Union's own shares and deposits decline.

These shares have been designated as Available for Sale, but carried at cost as no liquid market exists for these shares.

Investment in 2176100 Ontario Ltd.

As a pre-condition of the merger to form Central 1, CUCO was required to divest itself of investments in certain third party asset-backed commercial paper ("ABCP"). The resolution approved the creation of a limited partnership ("the Partnership") to acquire these investments funded by member credit unions in proportion to their share investment in CUCO. As a result, on July 1, 2008, immediately prior to the merger of CUCO and CUCBC, the excluded ABCP with a total par value of \$186,916,000 was acquired by the Partnership at its estimated fair value of \$133,564,000 including accrued interest, net of expenses, and other assets. As there is still no liquid market in these ABCP investments, the fair values used to determine the acquisition price were provided by Edenbrook Hill Capital Ltd., a firm engaged by CUCO to provide an independent valuation of these assets underlying the ABCP investments.

NOTES TO FINANCIAL STATEMENTS (continued)

Members of CUCO were required to purchase units in the Partnership based on their proportionate share ownership in CUCO prior to the date of the merger. As a result, the Credit Union was required to purchase 306,418 units in the Partnership. The Partnership has designated the ABCP investments as Available for Sale. Accordingly, the value of the ABCP investments has been adjusted to the current market value. As there is still no liquid market in these investments, valuations were performed on the assets underlying the ABCP investments. The valuations are significantly lower than book value due to the impact of deteriorating market conditions. As a result, the Credit Union recorded a write-down of the investments in the Partnership of \$63,800.

5. PROPERTY, PLANT AND EQUIPMENT:

	2008		2007	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 362,413	\$ -	\$ 362,413	\$ -
Buildings	1,745,306	623,560	1,743,306	533,280
Parking lot	38,570	37,611	35,771	35,332
Furniture and equipment	447,895	334,152	423,703	275,789
	2,565,194	995,523	2,565,193	844,401
Less accumulated depreciation	995,523		844,401	
	\$ 1,598,661		\$ 1,720,792	

6. MEMBERS' DEPOSITS ACCOUNTS:

	2008	2007
Deposits	\$ 20,910,223	\$ 18,128,611
Term deposits	18,985,095	14,959,332
Registered retirement savings plan	6,081,105	5,104,126
Registered retirement income funds	1,652,174	1,595,194
Accrued interest payable	367,859	307,810
	\$ 47,996,456	\$ 40,095,073

The composite interest rate in force at December 31, 2008 ranged from 0% to 1.0% on demand deposits.

Term deposits are accepted at guaranteed interest rates, payable at maturity and annually on certificates of thirty days to five year terms.

NOTES TO FINANCIAL STATEMENTS (continued)

The following table analyzes the Credit Union's term deposits payable by maturity date:

	Variable rates	Fixed rates		2008 Total	2007 Total
		Less than 1 year	1-5 years		
Total term deposits	-	\$ 12,838,900	6,146,195	18,985,095	14,959,332
Average effective interest rate	-	3.20%	3.75%	3.38%	3.91%

The following table provides an analysis of the Credit Union's RRSP and other registered plans payable by maturity date:

	Variable rates	Fixed rates		2008 Total	2007 Total
		Less than 1 year	1-5 years		
RRSP and other registered plans	\$ 475,000	4,501,100	2,757,179	7,733,279	6,699,320
Average effective interest rate	0.50%	3.07%	3.68%	3.13%	3.58%

7. LIABILITIES QUALIFYING FOR REGULATORY CAPITAL:

Share capital:

	2008	2007
Membership shares	\$ 187,638	\$ 186,478

The Credit Union is authorized to issue an unlimited number of membership shares at an issue price of \$5 each. Members must hold shares as a requirement of membership. At December 31, 2008, there were 37,527 shares issued and outstanding (2007 - 37,296). The shares are redeemable at the option of the member.

At December 31, 2008, the aggregate membership was 3,642 (2007 - 3,579).

8. REQUIRED DISCLOSURES UNDER THE ACT:

The Credit Union maintains policies and procedures relative to capital management so as to ensure that capital levels are sufficient to cover risks inherent in the business.

The Credit Union's objectives when managing capital are:

- ❖ To ensure that the quantity, quality and composition of capital needed reflects the inherent risks of the entity and to support the current and planned operations and portfolio growth.

NOTES TO FINANCIAL STATEMENTS (continued)

- ❖ To provide a safety net for the variety of risks to which the entity is exposed in the conduct of its business and to overcome the losses from unexpected difficulties either in earnings or in asset values.
- ❖ To provide a basis for confidence among members, depositors, creditors and Regulatory agencies.
- ❖ To form a solid foundation for business expansion and ongoing reinvestment in business capabilities, including technology and process automation and enhancement.
- ❖ To establish a capital management policy for the entity appropriate for current legal and economic conditions, including compliance with regulatory requirements and with DICO's Standards of Sound Business and Financial Practices.

The Credit Union Act requires credit unions to maintain minimum regulatory capital, as defined by the Act. Regulatory capital is calculated as a percentage of total assets, and of risk-weighted assets. Risk-weighted assets are calculated by applying risk weight percentages, as prescribed by the Act, to various asset categories, operational and interest rate risk criteria. The prescribed risk weights are dependent upon the degree of risk inherent in the asset.

The Act requires credit unions to maintain a capital ratio of 4.25% and a risk-weighted capital ratio of 8%. The Credit Union has a stated policy that it will maintain at all times capital equal to the minimum required by the Act. The current minimum ratios per board policy are a capital ratio of 4.25% and a risk-weighted capital ratio of 8.0%. As at December 31, 2008, capital as a percentage of assets was 5.94% (2007 - 6.18%) and capital as a percentage of risk weighted assets was 16.17% (2007 - 14.82%).

9. FINANCIAL RISK MANAGEMENT:

The nature of the Credit Union's holdings of financial instruments exposes the Credit Union to credit, liquidity and market risk.

Credit Risk

Credit risk is the potential for financial loss to the Credit Union if a borrower or guarantor fails to meet payment obligations in accordance with agreed terms. Credit risk is one of the most significant and pervasive risks in the business of a credit union. Every loan, extension of credit or transaction that involves settlements between the Credit Union and other parties or financial institutions exposes the Credit Union to some degree of credit risk.

The Credit Union's primary objective is to create a methodological approach to our credit risk assessment in order to better understand, select and manage our exposures to deliver stable ongoing earnings. The strategy is to ensure central oversight of credit risk, fostering a culture of accountability, independence and balance. The responsibility for credit risk management is organization-wide in scope, and is managed through an infrastructure based upon:

NOTES TO FINANCIAL STATEMENTS (continued)

- (i) Centralized approval by the Board of Director's, of all credit risk policies reflecting the following six categories:
 - a. Credit risk assessment includes policies related to credit risk analysis, risk rating and risk scoring;
 - b. Credit risk mitigation includes credit structuring, collateral and guarantees;
 - c. Credit risk approval includes credit risk limits and exceptions;
 - d. Credit documentation focuses on documentation and administration;
 - e. Credit review focuses on monitoring for financial performance, covenant compliance and any sign of deterioration;
 - f. Credit portfolio management includes sectoral, geographic, and overall risk concentration limits and risk quantification;
- (ii) Centralized approval by the General Manager of the discretionary limits of lending officers throughout the Credit Union;
- (iii) Credit adjudication subject to compliance with established policies, exposure guidelines and discretionary limits, as well as adherence to established standards of credit assessment.

Credit approvals are escalated to the General Manager and ultimately to the Board of Directors, dependant upon credit exposure level and restricted party transactions;

- (iv) Credit department oversight of the following:
 - a. The establishment of guidelines to monitor and limit concentrations in the portfolios in accordance with Board approved policies governing industry risk and group exposures;
 - b. The development and implementation of credit risk models and policies for establishing borrower risk ratings to quantify and monitor the level of risk and facilitate management of commercial credit business;
 - c. Approval of the scoring techniques and standards used in extending, monitoring and reporting of personal credit business;
 - d. Implementation of an ongoing monitoring process of the key risk parameters used in our credit risk models.

The Board has delegated to the General Manager the authority to establish a lending hierarchy. As such, a procedure for the delegation of lending authority has been developed and is in active use. The Credit Union employs persons who are competent and qualified to manage its credit granting activities. Staff may be designated individual authorities based on experience and background. Designated staff whose primary job accountabilities are to manage the quality and risk of the Credit Union's portfolio, are granted the authority to use judgement and discretion consistent with policy, in discharging their duties.

NOTES TO FINANCIAL STATEMENTS (continued)

Management has the responsibility to:

- (i) Systematically identify, quantify, control and report on existing and potential credit risks and environmental risks in the loan portfolio;
- (ii) Prudently manage the exposure to default and loss arising from those risks;
- (iii) Employ and train, as necessary, personnel who can implement risk measurement and credit management techniques as required by policy.

Adequate measuring, monitoring and reporting on risk position and exposure is maintained and compliance and audit responsibilities are in place and adhered to. The Board of Director's receives regular summary measurements of the credit portfolio.

The Credit Union's credit risk portfolio is classified as "retail" and "commercial/agricultural", and a different risk measurement process is employed for each portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

The Credit Union's credit risk policies, processes and methodologies have not changed materially from the prior year with the exception of enhanced industry analysis and amendments to the basis for concentration measurement.

Except as noted, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Credit Union's maximum exposure to credit risk without taking into account the value of any collateral obtained. The Credit Union is also exposed to credit risk through transactions which are not recognized in the balance sheet, such as granting financial guarantees and extending loan commitments. The risk of losses from loans undertaken is reduced by the nature and quality of collateral obtained.

Interest Rate Risk

Interest rate risk is the sensitivity of the Credit Union's financial position to movements in interest rates. The Credit Union is exposed to interest rate risk when we enter into banking transactions with our members, namely deposit taking and lending. When asset and liability principal and interest cash flows have different payment or maturity dates, this results in mismatched positions. An interest-sensitive asset or liability is repriced when interest rates change, when there is cash flow from final maturity, normal amortization, or when members exercise prepayment, conversion or redemption options offered for the specific product. The Credit Union's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions. It is also affected by new business volumes, renewals of loans or deposits, and how actively members exercise options, such as prepaying a loan before its maturity date.

NOTES TO FINANCIAL STATEMENTS (continued)

The Credit Union's interest rate risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. Overall responsibility for asset/liability management rests with the Board. As such, the Board receives regular reports on risk exposures and performance against approved limits.

The key elements of the entity's interest rate risk management framework include:

- (i) Guidelines and limits on the structuring of the maturities, price and mix of deposits, loans, mortgages and investments and the management of asset cash flows in relation to liability cash flows;
- (ii) Guidelines and limits on the use of derivative products to hedge against a risk of loss from interest rate changes;
- (iii) Requirements for comprehensive measuring, monitoring and reporting on risk position and exposure management.

Valuations of all asset and liability positions, as well as off-balance sheet exposures, are performed no less frequently than monthly. The Credit Union's objective is to establish and maintain a balance sheet and off-balance sheet structure that will protect and enhance the Credit Union's net interest income and the value of the Credit Union's capital during all phases of the interest rate cycle and varying economic conditions.

The carrying amounts of interest sensitive assets and liabilities are presented below in the periods in which they next re-price to market rates or mature, and are summed to show the interest rate sensitivity gap. The average rates presented represent the weighted average effective yield based on the earlier of re-pricing or maturity dates.

The management of interest rate risk against internal exposure limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and liabilities to standard interest rate shock scenarios. See note 17 for Interest Rate sensitivity.

Liquidity Risk

Liquidity risk arises in the course of managing assets and liabilities. It is the risk that the entity is unable to meet its financial obligations in a timely manner and at reasonable prices. The Credit Union's liquidity risk management strategies seek to maintain sufficient liquid financial resources to continually fund the balance sheet under both normal and stressed market environments. The entity's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits.

NOTES TO FINANCIAL STATEMENTS (continued)

The key elements of the entity's liquidity risk management framework include:

- (i) Limits on the sources, quality and amount of liquid assets to meet normal operational requirements, regulatory requirements and contingency funding;
- (ii) Methodology to achieve an acceptable yield on the operating liquidity investment portfolio within prudent risk management bounds;
- (iii) Prudence tests of quality and diversity where investments bear credit risk;
- (iv) Parameters to limit term extension risk;
- (v) Implementation of deposit concentration limits in order to ensure diversification and stability of deposit funding;
- (vi) Requirements for adequate measuring, monitoring and reporting on risk position and exposure management.

Under the DICO Regulations, the Credit Union must maintain a regulatory minimum of 8% of gross liquid assets (cash resources and investments) to the sum of members' deposits. The Credit Union targets to maintain operating liquidity within the range of 8.25% to 12%. The low end of the range has been established in order to maintain a comfortable cushion beyond the statutory minimum requirements in order to meet cash needs, even during periods of market volatility. A cap has been placed on the range in recognition of the fact that too much excess liquidity has a negative impact on earnings. As at December 31, 2008 the Credit Union's liquidity ratio was 15.57% (2007 - 9.21%).

The table in note 17 sets out the period in which the Credit Union's monetary assets and liabilities will mature and be eligible for renegotiation or withdrawal. In addition to the cash flows detailed below, the Credit Union is exposed to potential cash outflows in the form of commitments and contingencies as set out in Notes 11 and 14.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The entity is exposed to foreign currency risk as a result of its members' activities in foreign currency denominated deposits and cash transactions. All foreign currency risk comes from U.S. dollar transactions. The entity's foreign currency risk is subject to extensive risk management controls and is managed in accordance with the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and variance from approved limits. The aforementioned activities that expose the entity to foreign currency risk are measured, monitored and controlled daily to minimize the adverse impact of sudden changes in foreign currency values with respect to the Canadian dollar. As at December 31, 2008 the entity's exposure to a 10% reasonably possible change in the foreign exchange rate is insignificant.

NOTES TO FINANCIAL STATEMENTS (continued)**Other Price Risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or foreign currency risk. The Credit Union is exposed to other price risk in its own investment portfolio. The Credit Union adheres to the principles of quality and risk diversification in its investment practices. The entity's other price risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. These policies and limits ensure, among other things, that the entity is in full adherence to the regulatory requirements prescribed in the Act as well as DICO's standards of Sound Business and Financial Practices. The Board receives regular reports on risk exposures and performance against approved limits. As at December 31, 2008 the entity has limited investments subject to other price risk and this exposure is insignificant.

10. INCOME TAXES:

Income tax differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 33.50% (2007 - 36.12%). The reasons for the differences are as follows:

	2008	2007
Computed tax expense	\$ 121,297	\$ 140,419
Increase (decrease) resulting from:		
Non-deductible costs	1,273	1,581
Preferred rate and small business deductions for Credit Unions	(59,170)	(68,376)
Change in valuation allowance	2,000	(21,824)
Tax Provision	\$ 65,400	\$ 51,800

The tax effects of temporary differences that give rise to significant portions of future income taxes assets and future income taxes liabilities at December 31, 2008 are presented below:

	2008	2007
Future income tax assets:		
Provisions for credit losses	\$ 9,470	\$ 8,237
Capital assets - difference between net book value and undepreciated capital cost	34,530	26,963
Investments	2,000	-
Less valuation allowance	(2,000)	-
Net future income tax asset	\$ 44,000	\$ 35,200

NOTES TO FINANCIAL STATEMENTS (continued)

11. COMMITMENTS:

(a) Lines of credit:

As at December 31, 2008, the total approved lines of credit to members was \$2,935,676 of which \$1,476,516 has been disbursed.

(b) Loans to members:

As at December 31, 2008, loans amounting to \$1,435,480 had been approved but not yet disbursed.

(c) Banking system services:

The Credit Union has contracts for banking system services that require annual payments of approximately \$116,000 for the years 2008 to 2013 inclusive.

12. RELATED PARTY TRANSACTIONS:

(a) At December 31, 2008, mortgage and non-mortgage loans amounting to approximately \$1,776,300 (2007 - \$1,136,058) were due from officers, directors and employees of the Credit Union. All loans issued to officers, directors and employees of the Credit Union conform to the Credit Union policies for terms, interest rates, limits and credit.

(b) The aggregate remuneration paid to directors was \$6,420 (2007 - \$5,500).

13. CENTRAL 1 DEMAND LOAN:

The Credit Union has access to a line of credit facility totaling \$1,901,000 at Central 1 at prime rate. The line of credit is secured by an assignment of loans to members and a general security agreement covering all assets of the Credit Union. At year end, the Credit Union has not drawn on any of its credit facilities (2007 - Nil).

14. CONTINGENCIES:

In the normal course of business, the Credit Union may be subject to a number of lawsuits and other legal proceedings. The outcome of these lawsuits is uncertain.

In the opinion of management, these lawsuits will not have a material effect upon the financial position of the Credit Union. Any settlement in respect of these claims will be reflected as a charge to income in the year of settlement.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS:

(a) Estimated fair value of on-balance sheet financial instruments:

The amounts set out below represent the fair value of the Credit Union's financial instruments using the valuation methods and assumptions described below.

NOTES TO FINANCIAL STATEMENTS (continued)

The estimated fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

			2008	2007
	Fair Value	Book Value	Fair Value Over(under) Book Value	Fair Value Over(under) Book value
Financial assets:				
Loans to members	\$ 41,033,955	41,269,170	(235,215)	(991,277)
Investments	4,094,654	4,066,009	28,645	2,595
Financial liabilities:				
Members' deposit accounts	\$ 48,936,783	47,996,456	940,327	415,939

The following methods and assumptions were used to estimate the fair value of financial instruments:

- (i) The fair values of cash and liabilities to non-members are assumed to approximate their carrying values, due to their short-term nature.
 - (ii) The fair value of investments is based on quoted market values where available. Carrying values are used when no quoted market prices are available.
 - (ii) The estimated fair value of floating rate loans and floating rate deposits is assumed to be equal to book value as the interest rate on these loans and deposits reprice to market on a periodic basis.
 - (iv) The estimated fair value of fixed rate loans, fixed rate deposits and liabilities qualifying as regulatory capital is determined by discounting the expected future cash flows of these loans, deposit accounts at current market rates for products with similar terms and credit risks.
- b) Equity swap agreements:
- Included in term deposits and RRSP's is a total of \$363,307 (2007 - \$360,082) of index linked deposits. The fair value of the index linked swap contracts at year-end is approximately \$28,196 (2007 - \$73,202).

NOTES TO FINANCIAL STATEMENTS (continued)**16. COMPARATIVE FIGURES**

Certain of the 2007 figures have been reclassified to conform with the 2008 presentation.

17. INTEREST RATE SENSITIVITY

Contractual repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate sensitivity gap.

	Variable Rate	Fixed rates			Non-Interest Sensitive	2008 Total	2007 Total
		Less than 1 year	1 to 5 Years	Over 5 Years			
Assets:							
Cash resources	\$ 2,262,633	1,000,000	-	-	737,576	4,000,209	718,866
Investments	-	3,416,458	-	-	649,551	4,066,009	3,357,483
Member loans	10,605,900	6,765,800	23,708,405	177,500	11,565	41,269,170	36,934,751
Other					1,708,924	1,708,924	1,842,494
	12,868,533	11,182,258	23,708,405	177,500	3,107,616	51,044,312	42,853,594
Liabilities & Members' Equity							
Member deposits	15,798,493	17,349,000	8,903,373	-	5,954,590	47,996,456	40,080,923
Other	-	-	-	-	3,047,856	3,047,856	2,772,671
	15,798,493	17,340,000	8,903,373	-	9,002,446	51,044,312	42,853,594
On balance sheet mismatch	(2,929,960)	(6,157,742)	14,805,032	177,500	(5,894,830)	-	-
Cumulative mismatch	\$ (2,929,960)	(9,087,702)	5,717,330	5,894,830	-	-	-

It is estimated that an immediate and sustained parallel increase in interest rates of 1% sources all maturities and currencies would decrease net interest income by approximately \$8,500 and a decrease in interest rates of 1% across all maturities and currencies would decrease net interest income by approximately \$70,800 over the next twelve months using the following assumptions:

- (i) accrued interest receivable and payable as at December 31, 2008 are excluded from the calculation;
- (ii) no hedging of interest rate exposures are made;
- (iii) instruments repriced evenly within their respective time bands;
- (iv) existing credit commitments will not be drawn upon; and
- (v) no prepayments of fixed term loans or early redemption of redeemable fixed term deposits will be made.

Northridge Savings & Credit Union Limited**SCHEDULE OF EXPENSES**

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Salaries and benefits:		
Salaries	\$ 737,097	\$ 694,326
Benefits	161,671	143,331
Travel	7,200	7,200
	\$ 905,968	\$ 844,857
General:		
CUCO	\$ 53,757	\$ 68,913
Network	38,688	37,169
Administration	47,353	51,877
Outsource services	72,350	52,598
Loans miscellaneous	13,053	28,547
Supplies	27,174	23,864
Board and committee	22,145	36,978
Professional fees	40,000	26,047
Training and conferences	23,166	22,827
Miscellaneous	6,448	10,047
Joint venture	-	(6,429)
	\$ 344,134	\$ 352,438
Computer, office and other equipment:		
Computer	\$ 118,807	\$ 116,338
Depreciation	58,363	71,519
Maintenance	39,990	42,448
	\$ 217,160	\$ 230,305
Occupancy:		
Amortization of property and equipment	\$ 92,759	\$ 89,354
Property taxes and insurance	56,854	54,009
Building repairs and maintenance	46,993	48,342
	\$ 196,606	\$ 191,705
Advertising and communications:		
Advertising	\$ 40,300	\$ 36,880
Telephone	28,041	27,236
Postage	20,794	21,504
	\$ 89,135	\$ 85,620
Member security:		
Insurance	\$ 39,096	\$ 35,924
Bonding	27,113	21,747
	\$ 66,209	\$ 57,671

Report of the Audit Committee

The Audit Committee is responsible for reviewing the annual audited statements and making such recommendations to the Board as the Committee considers appropriate. The Committee is also charged with the responsibility of reviewing the Credit Union's policies and procedures governing its meeting requirements under the Act for liquidity, capital adequacy, lending and interest rate risk management. We also monitor the adherence of the Credit Union's directors, officers, and employees to its code of conduct. The Committee reviews and makes recommendations to the Board about the terms of the engagement letter and remuneration of the external auditor.

Our Internal Auditor, Doug Hamilton, reports directly to the committee, attends all meetings and provides written reports on any matters to be reviewed. During the past fiscal year, the Committee met five times to review findings and make recommendations to the Board of Directors.

During 2008, Northridge had a security system audit by Bulldog Digital Security. We are pleased to report that we were rated compliant for our security. Member confidence in our security and privacy controls continues to be of utmost importance to the board and management.

The Audit Committee is satisfied that Credit Union management is complying with the regulatory requirements of the Credit Union Act and other applicable regulations and that adequate and properly managed financial controls and safeguards are in place.

My thanks are extended to Management and our Internal Auditor, and to the other committee members for their dedication and assistance in the past year.



Patrick McNally
Audit Committee Chair

Committee Members:

Lisa La Croix
Leo Racette
E. Robert Unger
Gerry Labelle



In June, 30 kids from 3 different schools (Adamsdale, St. Raphael's and Carl Nesbitt) sailed aboard the Cortina for an afternoon of pizza and pop as a reward for their contribution to the school.

Loan Report

A total of 504 loans for a value of \$20,100,071 were issued during the year 2008.

The following is a breakdown of the loans granted during the year.

	2008		2007	
	No. of Loans	Loan Value	No. of Loans	Loan Value
Automobiles	81	1,473,896	81	1,522,107
Auto Repairs & Insurance	8	22,942	3	13,151
Vacation	2	10,367	3	4,582
Investments	9	110,967	8	29,025
Consolidations	97	1,670,680	118	2,359,882
Home Improvements	19	189,656	11	92,576
Household Goods	3	9,947	4	39,333
Education	1	5,582	3	8,935
Operating Expense	2	17,080		NIL
Recreational Vehicles	34	548,974	80	995,570
Line of Credit	128	964,625	125	840,000
Business Loans		NIL	2	725,000
Other	22	277,730	35	449,379
Sub Total	406	5,302,716	473	7,079,540
Merit Line	18	1,938,500	15	1,213,000
Mortgages	80	12,858,855	84	10,900,412
Total Loans	504	20,100,071	572	19,192,952
Denied Loans	94		69	

At year-end, there were 2 loans in arrears for more than 90 days for a total of \$21,688.

Marketing Report

Northridge experienced another eventful year due to our participation in many fundraising events and to our contributions to various local projects. The following provides a sample of some of our rewarding endeavors:

- Held the Tenth Annual Camp Quality Charity BBQ and raised \$5,500 for the charity
- Hosted the Camp Quality Bake Sale which raised over \$2,000 with proceeds going to Camp Quality
- Remitted the fourth of five installments to the Northern Ontario School of Medicine Bursary. This raises Northridge's total to \$8,000 in the bursary
- Partnered with the five area Credit Unions to organize the Northern Ontario Golf Tournament and raised \$7,000 for the Northern Ontario Diabetes Association
- Rewarded 10 children from 3 different schools with a trip aboard the Cortina Cruise
- Purchased passes to Science North for local area schools
- Provided numerous donations, sponsorships and scholarships for community based organizations and schools

Planning ahead for 2009, our marketing efforts have become stronger in order to support our community and attract new members. Despite the tough economic times, it is important to maintain communications in order to promote development and encourage sustainability. Marketing researchers indicate that businesses that continue to advertise throughout an economic downturn experience improved operations over time. According to a study completed by McGraw-Hill Research, 600 businesses were examined from 1980 to 1985 and the results proved that the businesses that decided to uphold or increase their level of advertising spending during the 1981 and 1982 recession had significantly higher sales after the economy recovered. Thus, Northridge's marketing initiatives recently included adopting a television advertising campaign, highlighting our level of service due to our concern for our members' well-being and their financial needs. This service has enabled Northridge's success and we promise to continue to deliver this service.

I look forward to further executing our numerous marketing initiatives, which uphold our commitment to being a distinguished partner with our members and our community.

Respectfully submitted,



Anna Frattini, H.B.Com., MBA
Chair, Marketing Committee

Committee Members:

Vally LaFlamme
Ron Abreu
Lisa La Croix
Gerry Labelle

Privacy and Compliance Report

PRIVACY

Northridge is a member-owned and controlled financial institution and, as such, has an inherent responsibility to be open and accessible while, at the same time, demonstrating the greatest respect for protection of the member's personal privacy. The Privacy Act was passed to support and promote electronic commerce by protecting personal information that is collected, used or disclosed in certain circumstances, by providing for the use of electronic means to communicate or record information.

The purpose of this Act is to extend the present laws of Canada that protect the privacy of individuals with respect to personal information about themselves and provide individuals with a right of access to that information.

10 Interdependent Privacy Principles:

- | | |
|---|----------------------------|
| 1. Accountability | 6. Accuracy |
| 2. Purpose Identification | 7. Safeguards |
| 3. Consent | 8. Openness |
| 4. Limiting Collection | 9. Individual Access |
| 5. Limiting Use, Disclosure and Retention | 10. Challenging Compliance |

COMPLIANCE

It is the policy of Northridge Savings to prevent, as much as possible, the laundering of proceeds of criminal activity, defined as: "The process through which criminals use legitimate businesses and institutions to conceal the criminal origin of their profits." It is also the policy of this credit union to deter terrorist activity financing transactions and to freeze properties owned or controlled by terrorist groups where it is within our capacity to do so.

Northridge will comply with the obligations under the new Act by reporting suspicious and prescribed transactions to the government agency FINTRAC as required and by implementing a compliance regime including:

- * The appointment of a compliance officer;
- * Developing and applying compliance policies and procedures;
- * An on-going review of compliance policies and procedures; and
- * Providing employees with training on a continual basis.

While complying with the Act, Northridge Savings will evaluate each reportable situation and will strive to protect our members' privacy and rights to the utmost lengths.

Respectfully submitted,



David Lepage
Training & Development Officer

Balanced Scorecard Committee Report

A Balanced ScoreCard is one method an institution may use to assess its effectiveness in a number of different areas. Every ScoreCard is designed specific to the needs and goals of the institution itself, based on the institution's corporate goals. The four most common areas for assessment are:

- Financial Performance
- Internal Performance (procedures)
- Learning and Growth
- Member Satisfaction


Upon completion, a Balanced ScoreCard remains a living document which is revised as needed to best reflect and assess the direction and priorities of the institution as set by the Board.

An Ad-Hoc Committee to begin the creation and establishment of a Balanced ScoreCard specific to the Planning Session Goals of November 2007 was formed in May, 2008. The Committee did extensive individual research on Balanced ScoreCards, and met with management to determine present status and viability of intended measurements.

It quickly became obvious to the Committee that the task of creating a Balanced ScoreCard is more complex than expected. Queries were made regarding the use of those more experienced in this field, and upon consultation it was decided to disband the committee. The recommendation was made that experienced personnel be used at a future occasion to assist us in the creation of an effective Balanced ScoreCard at the same time as we set out our goals for Northridge.

We are pleased to report that, although a finished product did not result from this committee, much has been learned about Balanced ScoreCards which will assist the Board in its effectiveness for the coming term and in the timely creation of an effective ScoreCard mechanism.

Respectfully submitted,



Bette Choquette
Balanced Scorecard Committee Chair

Committee Members:

Patrick McNally
Robert E. Unger

Board of Directors

	<u>Term Expires</u>
Gerry Labelle, President	2011
Patrick McNally, Vice-President	2011
Bette Choquette, Corporate Secretary	2010
Ron Abreu	2009
Vally LaFlamme	2009
E. Robert Unger	2009
Lisa La Croix	2010
Anna Frattini	2011
Leo Racette	2010

Audit Committee:	E. Robert Unger	Pat McNally	Gerry Labelle
	Lisa La Croix	Leo Racette	
	Doug Hamilton - Internal Auditor		

Staff

9 SECOND AVENUE

Erik Jokinen	General Manager
Tess McLaughlin	Branch Manager
Patti Guy	Loan Officer
Joanne Lamirande	Office Supervisor
Kim Goegan	Member Service Representative
Megan Hadner	Member Service Representative
Wendy Geden	Member Service Representative
June Ward	Data Processing Officer
David Lepage	Training & Development Officer

1250 LASALLE BLVD.

Patrick Brady	Branch Manager
Kelly Mihaichuk-Smith	Loan Officer
Nadine Sauter	Loan Officer
Marlene Teskey	Office Supervisor
Carol Tyreman	Member Service Representative
April Ashley	Member Service Representative
Terry Kohls	Member Service Representative

Legal Counsel
Weaver, Simmons

Internet - www.northridgesavings.com