

66th ANNUAL REPORT

2008

**EQUITY CREDIT UNION
INC**

WHAT MAKES CREDIT UNIONS DIFFERENT ?

- 1) **OWNERSHIP** – Anyone can join a credit union. Credit union members are not merely customers. What distinguishes credit unions from other financial institutions is the principle of one member, one vote. As shareholder members of their financial institution, they have the right to a say in the overall direction of the credit union, elect directors to the board, and share in any profits the credit union makes. The democratic structure of credit unions is an attractive alternative to other financial institutions because all people, regardless of income, occupation or education, influence the policies and decisions made on behalf of the entire membership. Membership does have its benefits.

- 2) **SERVICE** – Credit unions pride themselves on providing their members with friendly and responsive service. They are in business to serve the individual needs of their members.

- 3) **CHOICE** – Credit unions offer a complete range of financial products and services – from chequing accounts and credit cards to Interac and Internet banking.

- 4) **COMPETITIVE PRICES** – Interest rates and service charges at credit unions are comparable to, and sometimes better than, those of the banks.

- 5) **COMMITMENT TO THE COMMUNITY** – Credit unions reinvest their deposits and profits in the communities in which they operate. This is in keeping with their co-operative principles.

66th Annual Meeting

Wednesday, April 15, 2009

Ellas Banquet Hall

35 Danforth Road

Toronto, Ontario

5:30 pm

Agenda

Registration of members

President's welcome

Minutes of 65th Annual Meeting

Reports from: Board of Directors, General Manager,

Senior Lending Officer,

Audit Committee and Auditor

Other Committees

Appointment of Auditor

Unfinished Business

Pat Foley Memorial Fund

Elections of Directors

Report of the Chairman of Elections

Other Business

New Business

Adjournment

Board of Directors

Adil Qureshi

Chair

2011

Art Jessop

Vice Chair

2010

Kenn Fraser

Corporate Secretary

2011

Bill Downing

2011

Teresa Zalewski

2009

Andrew Lenardon

2009

Norman Johnston

2010

Frank Hoday

2010

Office Staff

Thomas Dimson
General Manager

Diane North
Office Manager

Bob Proulx
Mortgage and Loan Manager

Nancy Smith
Mortgage and Loan Officer

Donna Raponi
Member Services Officer

Auditor

English & Jones LLP
Chartered Accountants

REPORT OF THE BOARD OF DIRECTORS

As you all know, 2008 was an extremely challenging year for the global financial systems and the economy. We all saw the ABCP debacle of last summer in the United States start the domino affect that is frankly still being felt all over the world. Big name financial institutions vanished overnight. North of the border, many financial institutions like many worldwide, were left with toxic paper on their balance sheet. The good news is that your credit union was not directly involved with ABCP.

Of course 2008 also saw the strike at the Korex plant. Although we did not suffer financially as a result of the strike, I will like to point out that we helped and assisted our valuable members through these rough times and are continuing to do so. At no point has your credit union been put at risk.

As if 2008 had not done enough to test us, it dealt us a final blow and we lost a long time member and our sitting Chair, Ralph Downing on 24th of December. Ralph was a champion of the credit union cause and a very passionate proponent of collective good of the membership. His wisdom and guidance will truly be missed.

Having stated all the challenges faced by the credit union in the past year, I am happy to report that we were still able to make a marginal profit. Your board and staff have been working diligently to ensure the overall health of the credit union.

I would like to thank the Directors for all their extra time and efforts this year to maintaining the credit union as a viable and important part of our financial lives.

I would like to thank the staff for their dedication and ongoing superior service.

Lastly, I would like to thank all the members for their support and business during 2008 and remind us all to keep spreading the benefits of being a member of Equity Credit Union.

Sincerely,

Adil Qureshi, Chair
Board of Directors

MESSAGE FROM THE GENERAL MANAGER

For over 66 years, we have kept our promise to Equity Credit Union members. We have upheld the traditional values of personal service, trust, integrity and innovation. We built caring, committed relationships that have stood the test of time. Over the years, we have prospered and grown together.

The year 2008 was no exception, despite an extraordinary difficult global economic climate. The major news story of 2008 was the rapidly declining liquidity and credit crisis that evolved. We have not been immune to this turmoil; however, we succeeded where other financial institutions failed because Equity is built on a very stable foundation. We are rooted in the strength of our membership, guided by our unwavering commitment to quality, and focused on a progressive vision of the future.

FINANCIAL FOCUS

Our assets decreased by approximately \$2.1 million and as a result, the December 31, 2008 balance sheet stood at \$38.1 million. This represented a 5.4% decrease over 2007 assets.

Our total member deposits had a marginal decline of \$82,700 in 2008. We are pleased to report that in 2008 we paid off the outstanding \$2 million loan that that the credit union had at December 31, 2007 with Credit Union Central of Ontario.

Equity's mortgage and loan portfolio declined by \$2.4 million in 2008. This was largely attributable to a slowing of the economy, wherein there was low demand for mortgage and loans and the ongoing strike at one of our major payroll groups that the credit union services.

Our capital increased in 2008. Regulatory capital ended the year at \$2,850,773 and our capital ratio at year-end was a very strong 7.88%. We continue to exceed regulatory requirements and industry averages.

Despite the historically low interest rates experienced in 2008, top line revenue continued to rise throughout the year with core loan revenue increasing by 2.7%. Investment income declined by 24% as our excess liquidity dollars shifted to pay-off the \$2 million loan we had outstanding. In addition, the low interest rate environment reduced the rates of return we received on the remaining excess liquidity we were holding.

Operating expenses decreased by 13.6% in 2008. Our provision for losses on loans was \$85,446, however, the board and management made a prudent decision to establish a non-specific provision for potential losses of \$60,000, which is included in the \$85,446. At December 31, 2008, the credit union has a

total of \$110,000 in general loan loss reserves that has been set aside against future loan contingencies.

In July 2008, there was a merger between two credit union trade associations, Credit Union Central of Ontario and Credit Union Central of British Columbia. All participating credit unions thought this union would be best as it would bring further strength to the system and further cost reductions over the long term. Due to the deficit existing in Credit Union Central of Ontario, Ontario credit unions did have two financial issues to deal with. Firstly, each credit union had to write down a portion of their Central shares and Equity's portion amounting to \$17.616. Secondly, as a result of Credit Union Central of Ontario's financial issues, Equity Credit Union was required to transfer \$279,021 in Asset Backed Commercial Paper 2008 Limited Partnership units as a condition of the sale of assets from Ontario to British Columbia. There was a subsequent evaluation done on the limited partnership as at December 31, 2008 and it was concluded that there was a deterioration of value and consequently the credit union recorded a write down on this investment in the amount of \$58,104.

The credit union had a net income before other items of \$114,995. Once the two, above noted write downs were taken, a pre-tax profit of \$39,274 was made.

At the end of 2008, we reported a net profit figure of \$29,625. This has been transferred to undivided earnings (capital) to further strengthen the financial viability and stability of the credit union for the coming years. Capital retention is critical during this period of uncertain market conditions. Our strong financial condition and history of profitability growth, position us well for continued success in 2009 and beyond.

LOOKING FORWARD

The year 2009 is expected to be very challenging as we look ahead with some caution, understanding that current market volatility and uncertainty may have an impact on financial performance. Equity Credit Union continues to offer "no-fee" banking and "keeps more money in our member's pockets". Not many financial institutions offer these positive incentives any longer.

Nevertheless, Equity Credit Union will continue to focus its primary attention on attracting new members, establishing a wealth management program for its existing members, increasing the personal loan portfolio and lastly, continuing to grow the deposit portfolio to fund member credit demand. These actions will be achieved through implementation of focused strategic marketing programs throughout the year with the assistance of a marketing agency. In addition, the credit union is also reviewing and investigating a new location.

The new Tax Free Savings Account (TFSA) became available to members in January. This account allows members over 18 years to invest up to \$5,000

annually and earn tax-free interest. Deposits are registered and insured up to \$100,000 per TFSA contract. The TFSA is the perfect complement to members' RRSPs or RRIFs.

The "virtual" part of our business continues to develop and increase in usage. As many of our members can attest, you do not have to live close to the credit union to deal with us. Our members conduct much of their banking over the telephone, through our website for internet banking and credit applications, and at outside facilities such as ATMs using our Member debit card.

We know that you, our members, require more options, more information and more tools to meet your financial goals. We continually strive to upgrade our personalized services as these activities are critical for our long-term growth. I encourage your active participation in all of the benefits awaiting you at our credit union. Tell your family, friends and co-workers about Equity Credit Union and how they can benefit as members.

ACKNOWLEDGEMENTS

At Equity Credit Union, part of our member intimacy is to be committed to being a socially responsible organization within our community. In 2007 we established the Pat Foley Memorial Fund and made \$5,000 donations in each of 2007 and 2008 to WoodGreen Community Services.

I would like to extend my appreciation to the staff and board of directors who ensure that the focus of our operation remains where it should – on our members' needs.

On a sad note, our Chair, Ralph Downing passed away in December. He was a member of the board for 15 years and a credit union member for over 30 years. He did a tremendous job as an ambassador to the credit union for which he truly cared. He will sadly be missed by all.

I am confident that the credit union, carried by the professionalism of our employees and supported by our Board of Directors, will continue to successfully meet the growth challenge and capitalize on opportunities that present themselves.

And most importantly, I along with our employees, would like to thank you, the members for your ongoing loyalty and support in making this a truly innovative, member-directed financial institution, without whom all this activity could not continue not only now, but in the future.

Thomas Dimson
General Manager

REPORT OF THE LOAN & MORTGAGE DEPARTMENT

During the year 2008, the Credit Union received a total of 2168 loan applications. Of these, 2100 new loans totaling \$6,459,332 were granted to members and 68 were denied.

The loan categories were :

Residential Mortgages :	27 for \$2,974,885
Residential MeritLines :	494 for \$1,513,988
Commercial Mortgages :	0 for \$ 0
Commercial MeritLines :	0 for \$ 0
Personal Loans :	157 for \$1,117,660
Lines of Credit :	1422 for \$ 852,799

At year end, the total loans outstanding were \$33,201,130 compared to \$35,527,153 at the end of the previous year. This resulted in an overall decrease of \$2,326,023 or 6.5% in the loan / mortgage portfolio for the year.

As at December 31, 2008 there were four (4) personal loans totaling \$18,730 and no mortgages that were considered to be impaired and were reserved for. Despite the floundering economy and an on-going strike by one of our major payroll groups, our delinquency rate remained quite low at 0.06%. A General Reserve of \$110,000.00 is in place in addition to the required Allowance for Doubtful Loans.

“Thank You” to all members who used our credit facilities in 2008. We always appreciate your business and hope you will continue to recommend our services to your family, friends and co-workers.

Bob Proulx
Loan and Mortgage Manager

AUDIT COMMITTEE

The Audit Committee continues to carry out its duties as stipulated by the Credit Union Act and Regulations of 1994. Some of these duties are:

- review the Credit Union's monthly financial reports and results;
- review the policies, procedures and controls relating to legislative compliance, with particular focus on capital adequacy, risk weighting of assets and liquidity;
- recommend the appointment of the auditor to the Board of Directors;
- review the qualifications, independence and performance of the auditor;
- serve as the principle communication link between the external auditor and the Board of Directors, and in particular, review and agree to the auditor's "Terms of Engagement" and "Scope of Audit";
- review the interim audit report and the year end audited financial statements and recommend approval to the Board of Directors.

The Audit Committee met five times during 2008. The Committee also met once with the Auditor:

- to review and accept the 2007 year end audited financial statements;

There were no matters of significance to be reported to the members.

The committee received full co-operation and support from management throughout the year.

A recommendation has been made to the Board of Directors for the appointment of the Auditor for the year 2009.

Respectfully submitted by the Audit Committee

Bill Downing, Chairman

Frank Hoday
Adil Qureshi
Kenn Fraser

HOURS

Monday-Wednesday
10:00 a.m. – 3:30 p.m.

Thursday
7:00 a.m. – 3:30 p.m.

Friday
7:00 a.m. – 2:30 p.m.

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