

**2008 FINANCIAL REPORTS OF
FIRSTONTARIO CREDIT UNION LIMITED**

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REPORT ON MANAGEMENT RESPONSIBILITY

The accompanying consolidated financial statements and all information contained in this Annual Report are the responsibility of the Management of FirstOntario Credit Union Limited, which is responsible for the integrity and fairness of the information presented. The financial statements, in the opinion of Management, have been prepared using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles and the Credit Unions and Caisses Populaires Act, 1994 (Ontario) and are based on informed judgments and estimates of the expected effects of current events and transactions.

To meet its responsibility for the integrity and objectivity of data in the financial statements, Management has developed and maintains a system of internal accounting controls. Management believes that this system of internal controls provides reasonable assurance that the financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and are safeguarded.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing Management's performance of its financial reporting responsibilities. The Board of Directors carried out its responsibility for the financial statements through its regular review of financial results and operations and through its Audit Committee. The Member-appointed auditors have full and free access to, and meet periodically with, the Audit Committee and the Board of Directors, with or without Management present, to discuss their audit and matters relating to financial statement presentation, internal controls and audit procedures.

KPMG LLP, Member-appointed external auditors, has examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards and their report is shown as part of the consolidated financial statements.



Kelly McGiffin
President and Chief Executive Officer



Barry Doan, CA
Vice President and Chief Financial Officer

November 10, 2008

Loan Statistics

For the year ended August 31, 2008

Total retail loan applications received	9,871
Total retail loans declined	3,488

Retail loans granted include:

Personal loans	4,489 for	\$ 57,142,000
Mortgages	750 for	\$ 79,986,000
Lines of Credit	835 for	\$ 8,177,000
MeritLines	309 for	\$ 31,656,000

Commercial loans granted include:

Demand term loans	43 for	\$ 42,883,000
Demand operating loans	15 for	\$ 12,590,000
Commercial mortgages	26 for	\$ 65,553,000

Delinquent loans:

Total loans delinquent, 90 days and over	27 loans
Value of loans delinquent, 90 days and over	\$ 546,000

REPORT OF THE AUDIT COMMITTEE

FirstOntario Credit Union Limited's Audit Committee is a committee of the Board of Directors pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 (Ontario). The Committee, which consists of four directors, has a mandate to cover all of the duties, which are specified to be performed by audit committees in the Regulations of the Act. The Audit Committee meets at least four times a year and arranges its agenda so that on an annual basis, the following duties will be performed and appropriate action taken as a result thereof:

- Serve as the principal communication link between the external auditors and the Board of Directors and, in particular, review the terms of engagement and scope of the audit, and review FirstOntario's annual financial statements prior to Board approval for issuance to the Members.
- Obtain a reasonable understanding of the important elements of internal controls that are important to safeguarding the assets of FirstOntario, ensuring the accuracy of financial reports and ensuring compliance with policies and procedures.
- Serve as the Board's liaison with the internal auditor and review the internal audit mandate, work plan and reports.
- Review the policies, procedures and controls, which relate to legislative compliance, with a particular focus on requirements for liquidity, capital adequacy and interest rate management.

Based on its findings, the Audit Committee issues reports and makes recommendations to the Board of Directors or senior management, as appropriate, with respect to the matters outlined above and follows up to ensure that the recommendations are considered and implemented.

The Audit Committee is pleased to report to the Members of FirstOntario that it has fulfilled its annual mandate. The Committee receives full co-operation and support from management to enable it to play an effective role in maintaining the quality of financial reporting to the Members and enhancing the overall control structure of the Credit Union.

There are no significant recommendations made by the Audit Committee that have not been either implemented or are in the process of being implemented. In addition, there are no matters which the Audit Committee believes should be reported to the Members, nor are there any further matters that are required to be disclosed pursuant to the Act or the Regulations thereto.



Ken Bolton, CA

Chair, Audit Committee

November 10, 2008

AUDITORS' REPORT

To the Members of
FirstOntario Credit Union Limited

We have audited the consolidated balance sheet of FirstOntario Credit Union Limited as at August 31, 2008 and the consolidated statements of earnings, changes in retained earnings, comprehensive loss and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at August 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P', serving as a separator or underline.

Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario

November 10, 2008

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Balance Sheet

August 31, 2008 with comparative figures for August 31, 2007

(In thousands of dollars) 2008 2007

Assets

Loans Receivable from Members

Residential mortgage loans (note 3)	\$ 418,528	\$ 423,869
Personal loans (note 3)	104,722	93,691
Commercial loans (note 3)	336,503	271,524
Accrued interest receivable	4,441	3,332
	864,194	792,416

Other

Cash	11,843	15,781
Investments (note 6)	95,845	89,994
Fixed assets (note 7)	13,877	14,696
Derivative financial instruments (note 10)	1,519	-
Other assets	5,699	4,056
	\$ 992,977	\$ 916,943

Liabilities

Members' Deposits and Shares

Deposits (note 8)	\$ 866,408	\$ 807,911
Membership shares (note 8)	4,876	4,769
Investment shares (note 8)	12,582	12,549
Accrued interest on deposits and shares	10,789	9,570
	894,655	834,799

Other

Loans payable (note 9)	47,000	30,000
Accounts payable and accrued liabilities	8,709	13,499
Derivative financial instruments (note 10)	5,191	-
	955,555	878,298

Members' Equity

Retained earnings	39,128	38,645
Accumulated other comprehensive loss	(1,706)	-
	37,422	38,645
	\$ 992,977	\$ 916,943

Commitments (note 14)

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Statement of Earnings

For the year ended August 31, 2008 with comparative figures for the year ended August 31, 2007

(In thousands of dollars)	2008	2007
Interest and Investment Income		
Residential mortgage loans (note 3)	\$ 22,048	\$ 24,254
Personal loans (note 3)	7,313	7,162
Commercial loans (note 3)	19,928	16,939
Derivative instruments	-	313
Other	3,361	4,060
	52,650	52,728
Interest Expense		
Members' deposits and shares (note 8)	26,137	24,168
Dividends on investment shares (note 8)	570	684
Derivative instruments	36	-
Other	1,272	1,845
	28,015	26,697
Operating Margin Before the Following		
Provision for impaired loans (note 4)	(780)	(240)
Other income	9,191	6,654
Operating Margin	33,046	32,445
Operating Expenses		
Salaries and employee benefits	17,249	15,331
Administrative	9,667	10,356
Occupancy	2,478	2,425
Members' deposit insurance protection (note 1)	726	714
Life insurance on life savings deposits	115	127
	30,235	28,953
Operating Income	2,811	3,492
Unrealized Gains (Losses)		
Investments (note 6)	(1,888)	-
Net gains on derivative financial instruments	205	-
	(1,683)	-
Earnings Before Income Taxes	1,128	3,492
Income taxes (note 12)	289	637
Net earnings for the year	\$ 839	\$ 2,855

Consolidated Statement of Changes in Retained Earnings

For the year ended August 31, 2008 with comparative figures for the year ended August 31, 2007

(In thousands of dollars)	2008	2007
Balance at beginning of year	\$ 38,645	\$ 35,790
Transitional adjustment on adoption of new accounting policies (note 2)	(356)	-
Net earnings for the year	839	2,855
Total Retained Earnings	\$ 39,128	\$ 38,645

See accompanying notes to consolidated financial statements.

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Statement of Comprehensive Loss

For the year ended August 31, 2008

(In thousands of dollars) 2008

Net earnings for the year	\$	839
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Other Comprehensive Loss, net of tax

Gain (losses) on cash flow hedges:

Net change in unrealized losses on derivatives designated as cash flow hedges (net of income tax recovery of \$389,000)		(1,971)
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Comprehensive Loss	\$	(1,132)
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Consolidated Statement of Changes in Accumulated Other Comprehensive Loss

For the year ended August 31, 2008

(In thousands of dollars) 2008

Balance at beginning of year, net of tax	\$	-
Transitional adjustment on adoption of new accounting policies, net of tax (note 2)		265
Other comprehensive loss, net of tax		(1,971)
Total Accumulated Other Comprehensive Loss	\$	(1,706)

See accompanying notes to consolidated financial statements.

FIRSTONTARIO CREDIT UNION LIMITED

Consolidated Statement of Cash Flows

For the year ended August 31, 2008 with comparative figures for the year ended August 31, 2007

(In thousands of dollars)	2008	2007
Cash Flows from Operating Activities		
Net earnings for the year	\$ 839	\$ 2,855
Adjustments for:		
Depreciation and amortization	2,620	2,760
Unrealized loss on investments	1,888	-
Loss on sale of fixed assets	-	43
Net changes in accrued interest receivable and payable	474	856
Net changes in employee retirement benefits accrued benefit liabilities	198	387
Other non-cash items, net	(7,385)	335
Net change in derivative financial instruments, other than derivatives designated as cash flow hedges	2,678	-
Cash flows from operating activities	1,312	7,236
Cash Flows from Financing Activities		
Net change in deposits	58,497	18,997
Net change in membership shares	107	81
Net change in investment shares	33	(429)
Net change in loans payable	17,000	12,000
Cash flows from financing activities	75,637	30,649
Cash Flows used in Investing Activities		
Net change in loans	(70,669)	(21,242)
Net investment purchases	(8,417)	(14,494)
Purchase of fixed assets, net of disposals	(1,801)	(1,116)
Cash flows used in investing activities	(80,887)	(36,852)
Cash		
Net (decrease) increase during year	(3,938)	1,033
Balance at beginning of year	15,781	14,748
Balance at end of year	\$ 11,843	\$ 15,781
Supplementary Cash Flow Information		
Interest received during the year	\$ 51,905	\$ 52,636
Interest paid during the year	\$ 26,796	\$ 25,593
Income taxes paid during the year	\$ 1,150	\$ 499

See accompanying notes to consolidated financial statements.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

1. Significant Accounting Policies:

FirstOntario Credit Union Limited ("FirstOntario") is incorporated under and operates in compliance with the Credit Unions and Caisses Populaires Act of Ontario (the "Act") and is a member of the Deposit Insurance Corporation of Ontario ("DICO"). FirstOntario's member deposits are insured by DICO under a mandatory program, the expense for which amounted to \$726,000 in 2008 and \$714,000 in 2007. At August 31, 2008 there were 69,181 members (2007 – 67,451).

The consolidated financial statements of FirstOntario have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of Consolidated 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 Consolidated Balance Sheet date and the reported amounts in revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies used in the preparation of these Consolidated Financial Statements are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

(a) Basis of consolidation:

The consolidated financial statements include the assets, liabilities and results of the operations of FirstOntario and its wholly owned subsidiary 1320818 Ontario Limited which supplies information technology services and operates the banking system for FirstOntario. All intercompany transactions and balances have been eliminated.

(b) Loans receivable from members:

Prior to August 31, 2007, Loans receivable from members were stated at amounts advanced less repayments and allowances for impaired loans. Beginning September 1, 2007, loans are initially measured at fair value net of direct transaction costs and revenues and are subsequently re-measured at their amortized cost (net of an allowance for impaired loans) using the effective interest method, as prescribed by CICA Handbook Section 3855, as described in note 2.

FirstOntario maintains an allowance for impaired loans, which in management's opinion, is considered adequate to absorb all loan-related losses. The allowance for impaired loans represents specific and non-specific provisions. Specific allowances are calculated on individual loans when they become impaired. A loan is impaired at the earlier when, in the opinion of management, there is reasonable doubt as to the collectability of principal and interest, or when loan payments are 90 days past due. Non-specific allowances are established to absorb probable loan losses not yet specifically identified on a loan-by-loan basis. The non-specific allowance is based on portfolio quality, past experience, current economic conditions and management's judgment.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

1. Significant Accounting Policies (continued):

(c) Loan securitizations:

FirstOntario periodically securitizes personal loans, residential mortgages and commercial loans by selling them to Central 1 Credit Union ("Central 1"), CIBC Safe Trust or other funding partners. These transactions are accounted for as a sale when control over the loans and mortgages has been surrendered and FirstOntario has received consideration in exchange.

Gains on these transactions are reported as other income on the consolidated statement of earnings. The amount of these gains is based on the present value of expected future cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, credit losses and discount rates.

FirstOntario typically retains interests in the transferred loans and mortgages, such as excess interest spread and servicing rights. Prior to August 31, 2007, the retained interests were recorded on the amortized cost basis. Beginning September 1, 2007, the retained interests have been designated as Available for Sale and are measured at fair value. The fair value of the retained interests is estimated using the same present value methodology described above for gains or losses on securitization. The carrying value of retained interests are reviewed annually for impairment and adjusted as required.

Revenue from servicing loans and mortgages is recorded as the services are provided.

(d) Cash:

Cash include cash on hand, current accounts, short term deposits with other financial institutions, cheques and other items in transit. Prior to September 1, 2007, cash balances were carried at cost. Beginning September 1, 2007, these items have been designated as Held for Trading and are measured at fair value. Given their short term nature, the carrying value of cash equals fair value.

(e) Investments:

Investments are purchased with the intention of holding the securities to maturity or until market conditions render alternative investments more attractive. Prior to September 1, 2007, fixed-term investments were carried at amortized cost whereby purchase discounts and premiums were amortized to income over the term to maturity. Investments in equity shares and co-operatives were carried at cost.

Beginning September 1, 2007, FirstOntario accounts for its investments in accordance with Section 3855. The designation of investment instruments is outlined in Note 6.

Any gains and losses on disposal of investments are recorded in the year they occur and included in other investment income in the Consolidated Statement of Earnings.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

1. Significant Accounting Policies (continued):

(f) Fixed assets:

Fixed assets are stated at cost less accumulated depreciation and amortization. Depreciation on buildings and equipment is provided using the straight-line method at rates based on the estimated useful lives of depreciable assets as follows:

Asset	
Buildings	20 – 40 years
Parking lots and site improvements	10 – 25 years
Equipment	3 – 10 years
Software	3 – 7 years

Amortization of leasehold improvements is provided using the straight-line method applied over the terms of the leases.

(g) Derivative instruments:

Derivative instruments are financial contracts whose value is derived from interest rates or other financial indices in the equity markets. In the ordinary course of business, FirstOntario enters into various derivative contracts, including interest rate swaps, equity-linked options and foreign exchange forwards. FirstOntario enters into such contracts to manage interest rate fluctuations and foreign exchange risk as part of FirstOntario's asset/liability management program.

Interest rate swaps involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based. Equity-linked options are purchased to hedge deposit products whose interest is linked to various equity indices or a specific bundle of equities. These contracts pay returns based on the change in value of equity indices or a specific bundle of equities.

Foreign exchange contracts are used to hedge FirstOntario's net US dollar liability position.

FirstOntario formally documents all relationships between hedging instruments and hedged items; as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheet or specific firm commitments or forecasted transactions. FirstOntario also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. FirstOntario designates its interest rate hedge agreements as hedges of the underlying financial instrument.

From September 1, 2007 the application and recognition of hedge accounting is described in note 2, change in accounting policies.

Prior to September 1, 2007 FirstOntario followed the CICA's Accounting Guideline 13 ("AcG-13"), Hedging Relationships, when accounting for its hedging relationships. AcG-13 set out the criteria that must be met in order to apply hedge accounting for derivatives. The guideline also provided detailed guidance on the identification, designation, documentation

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

and effectiveness of hedging relationships, for purposes of applying hedge accounting, and the discontinuance of hedge accounting.

1. Significant Accounting Policies (continued):

(g) Derivative instruments (continued):

Accrued interest receivable is recorded in "Other assets" and accrued interest payable is recorded in "Other liabilities". Interest income or expense is recorded in "Interest income" or "Interest expense", as applicable.

(h) Shares:

Membership and investment shares have certain characteristics similar to demand deposits and are included with those liabilities on the Consolidated Balance Sheet. These shares are designated as other liabilities and carried at amortized cost. The dividends on shares are reported as interest expense.

(i) Revenue recognition:

Loan interest and revenue is recognized on the effective yield basis except when interest is ninety days past due or earlier when, in the opinion of management, there is doubt as to the collectability of principal or interest.

(j) Foreign exchange:

Financial assets and liabilities denominated in foreign currencies, primarily US dollars, are translated into Canadian dollars at rates prevailing at the year-end. Capital assets are carried at the historical Canadian dollar cost. Income and expenses are translated at the exchange rates in effect on the date of the transactions is recorded in "Other income".

(k) Employee retirement benefits:

FirstOntario provides retirement benefits to certain employees. These benefits include group RRSP's, registered pension plans, medical benefits, dental care and life insurance.

Group RRSP's and defined contribution pension plan contributions are expensed in the year earned.

The costs of defined benefit post-employment benefits (including medical benefits, dental care, life insurance, and defined benefit pension plans) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method estimating the usage frequency and cost of services covered and management's best estimates of investment yields, salary escalation, and other factors. Transitional obligations are being expensed over the average remaining service period of the employees.

FirstOntario uses the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses) over the average remaining service life of active employees. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued benefit obligation and the value of the plan assets. The average remaining service period of the active employees covered by the defined benefit pension plans is 13 years. The average remaining service period of the active employees covered by the other post-employment benefit plan is 9 years.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

1. Significant Accounting Policies (continued):

(k) Employee retirement benefits (continued):

When the restructuring of a benefit plan gives rise to a curtailment, the curtailment is accounted for at the time of restructuring.

(l) Income taxes:

FirstOntario follows the asset and liability method of accounting for income taxes, whereby FirstOntario recognizes both the current and future income tax consequences of all transactions that have been recorded in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes.

Future tax assets and liabilities are included either in "Other assets" or "Accounts payable and accrued liabilities", as applicable, in the Consolidated Balance Sheet.

2. Change in Accounting Policies:

(a) Current year changes:

On September 1, 2007, FirstOntario adopted four new CICA accounting standards: Handbook Section 3855, Financial Instruments, Section 3861 – Financial Instruments – Disclosure and Presentation, Section 3865 – Hedges and Section 1530 – Comprehensive Income. As required, these standards have been adopted prospectively with no restatement of prior period consolidated financial statements. These new standards carry significant implications regarding the accounting and reporting for financial instruments and hedging relationships. The standards introduce a new statement of comprehensive income and the concept of other comprehensive income and accumulated other comprehensive income ("OCI" and "AOCI", respectively). The adoption of these standards has given rise to the recognition of certain transition adjustments in the opening balance of retained earnings and opening accumulated other comprehensive income. The requirements of the new standards, the accounting policies adopted by FirstOntario and the resulting financial statement impact are further discussed below.

Financial Instruments – Recognition and Measurement

Financial assets are cash, a contractual right to receive cash or an equity instrument of another entity. Financial liabilities are contractual obligations to deliver cash or another financial asset to another party. FirstOntario recognizes and measures financial assets and liabilities on the Consolidated Balance Sheet when it becomes a party to the contractual provisions of a financial instrument. FirstOntario recognizes financial instruments at the trade date.

All financial assets and liabilities, including derivatives, with certain exceptions, are recorded at fair value on initial recognition and are subsequently accounted for based on their classification. When available from active markets, fair values are based on quoted market prices. If reliable markets are not available, fair values are estimated using a variety of valuation techniques and models. The amortized cost of a financial asset or liability is the amount at which it is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

2. Change in Accounting Policies (continued):

Financial assets can be classified in one of four categories: Held for Trading (“HFT”), Available for Sale (“AFS”), Held to Maturity (“HTM”) and Loans and Receivables. Financial liabilities must be classified as either Other Liabilities or Held for Trading. Classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Classification

Held for trading financial assets and liabilities are acquired or incurred principally for resale, generally within a short period of time. They are measured at fair value at each balance sheet date. Gains and losses realized on disposal together with dividends and interest earned on these instruments are reported in interest and investment income. Unrealized gains and losses from market fluctuations are reported separately in the consolidated statement of earnings. There are regulatory restrictions imposed by Financial Services Commission of Ontario on the use of this designation including that loan financial assets are precluded from being designated HFT and that the fair value designated financial instruments are managed on a fair value basis.

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments, other than Loans and Receivables that FirstOntario has the positive intention and ability to hold to maturity. These financial assets are accounted for at amortized cost using the effective interest method of amortization.

Available for sale financial assets are those non-derivative financial assets that are not designated as HFT, HTM or Loans and Receivables. AFS instruments are carried at fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income, as discussed below, until sale or other than temporary impairment when the cumulative gain or loss is transferred to the Consolidated Statement of Earnings. AFS equity instruments that do not have quoted market values in active markets are carried at cost. Realized gains and losses on sale and write downs to reflect other than temporary impairment in value are recorded in other income.

Financial assets classified as Loans and Receivables continue to be accounted for at amortized cost using the effective interest method of amortization.

Financial liabilities designated as Other Liabilities are recorded at amortized cost.

Effective Interest Method

Interest income and expense are recognized in the consolidated statement of earnings using the effective interest 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. The calculation of the effective interest rate includes transaction costs, fees and discounts or premiums that are an integral part of the rate.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

2. Change in Accounting Policies (continued):

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs related to HFT financial assets and liabilities are expensed as incurred. Transaction costs relating to AFS and HTM assets and Loans and Receivables are capitalized and amortized over the expected life of the instrument using the effective interest method.

Derivatives

FirstOntario uses derivative financial instruments such as swaps, options and foreign exchange forward contracts in its management of interest rate and foreign currency exposures.

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. In both cases they are reported as derivative financial instruments in the financial statements.

Derivatives may also be embedded in other financial instruments. Under the new standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivatives would meet the definition of a derivative if it was a free standing instrument, and the combined contract is not designated as HFT and recorded at fair value. These embedded derivatives are classified as part of the host instrument and measured at fair value with changes therein recognized on the Consolidated Statement of Earnings.

The above requirements led to the following changes in accounting for equity-linked deposits:

- i) The embedded written option in the equity-linked deposits has been separated from the deposit. The change in the fair value of this option since inception of each individual deposit contract has been recorded in opening retained earnings with future changes recorded in net earnings;
- ii) The interest accrual on the resulting host discount deposits from the inception date of the deposit to September 1, 2007 has been recorded in opening retained earnings with future interest accruals recorded in net earnings;
- iii) The options which were purchased to hedge the price risk exposure resulting from the equity-linked deposits have been recorded at their fair value as at September 1, 2007, with an offsetting entry to opening retained earnings with future changes in fair value recorded in net earnings.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

2. Change in Accounting Policies (continued):

Hedge Accounting

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and prescribes the accounting treatment for those permitted hedging strategies applicable to FirstOntario - Fair value hedges and Cash flow hedges.

In a fair value hedge, the change in fair value of the hedging derivative is offset on the consolidated statement of earnings by the change in fair value of the hedged item relating to the hedged risk. FirstOntario utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate. The main financial instruments designated in fair value hedging relationships are loans. If the derivative expires or is sold, terminated or exercised, no longer meets the criteria for fair value hedged accounting, or the designation is revoked, hedge accounting is discontinued. The fair value of the hedged item related to the hedged risk are reported as other assets.

In a cash flow hedge, the effective portion of changes in fair value of the derivative is recognized in OCI. The amount recognized in OCI is reclassified and included on the consolidated statement of earnings in the same period that the hedged cash flows affect income. The amount of other comprehensive loss that is expected to be reclassified to the Consolidated Statement of Earnings over the next 12 months is \$933,000. This will be offset by increased net interest income on assets and liabilities that are hedged. FirstOntario utilizes cash flow hedges primarily to convert floating rate assets and liabilities to fixed rate. Any hedge ineffectiveness is measured and recorded in the consolidated statement of earnings.

When either a fair value or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge (fair value hedge) and as the hedged item impacts earnings (cash flow hedge) or immediately if the hedged item is derecognized.

Prior to the adoption of the new financial instrument accounting standards, qualifying hedging relationships were accounted for on an accrual basis by FirstOntario. All derivatives met the hedge accounting requirements and as such none of them were carried at fair value on the consolidated balance sheet through to and including August 31, 2007.

Comprehensive Income

Section 1530 requires the presentation a new statement of consolidated comprehensive income and the presentation of accumulated other comprehensive income as a separate component of members' equity (net of tax) on the consolidated balance sheet.

Comprehensive income includes net earnings for the year and other comprehensive income – net unrealized gains and losses on financial assets classified as available for sale and changes in the fair value of the effective portion of cash flow hedging instruments, net of income taxes.

Changes in the components of comprehensive income for the current period have been presented in the consolidated statements of comprehensive income and accumulated other comprehensive income.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

2. Change in Accounting Policies (continued):

Impact of Adoption of Handbook Sections 1530, 3855, 3861 and 3865

As required, these standards have been applied as an adjustment, net of tax, to opening retained earnings, accumulated other comprehensive income and the related financial asset or financial liability balances. The impact of adopting these standards as at September 1, 2007 was as follows:

(In thousands of dollars)	As at August 31, 2007	Adjustment on adoption of new standards	As at September 1, 2007
Assets			
Loans receivable from members	\$ 792,416	\$ -	\$ 792,416
Cash	15,781	-	15,781
Investments	89,994	(314)	89,680
Fixed assets	14,696	-	14,696
Derivative financial instruments	-	2,307	2,307
Other assets	4,056	(722)	3,334
Impact on Total Assets	\$ 916,943	\$ 1,271	\$ 918,214
Liabilities and Members' Equity			
Members' deposits and shares	\$ 834,799	\$ -	\$ 834,799
Loans payable	30,000	-	30,000
Accounts payable and accrued liabilities	13,499	32	13,531
Derivative financial instruments	-	1,330	1,330
Retained earnings	38,645	(356)	38,289
Accumulated other comprehensive income	-	265	265
Impact on Liabilities and Members' Equity	\$ 916,943	\$ 1,271	\$ 918,214

(b) Future changes in accounting policy:

Financial Instruments – Presentation and Disclosure

Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation, issued in December 2006, revises the current standards on financial instrument disclosure and presentation. These standards enhance users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. These standards will be adopted by FirstOntario effective September 1, 2008.

Capital Disclosures

Handbook Section 1535, Capital Disclosures, was issued in December 2006. This section requires enhanced quantitative disclosures about what is regarded as capital and disclosure of information with respect to the objectives, policies and processes used to manage capital. These standards will be adopted by FirstOntario effective September 1, 2008.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

3. Loans Receivable from Members:

Loans receivable from members, which have been designated as loans and receivables, are as follows:

(In thousands of dollars)	2008	2007
Residential Mortgage Loans	\$ 418,558	\$ 423,869
Allowance for impaired loans	(30)	-
	418,528	423,869
Personal Loans	105,665	94,588
Allowance for impaired loans	(943)	(897)
	104,722	93,691
Commercial Loans	338,024	272,844
Allowance for impaired loans	(1,521)	(1,320)
	336,503	271,524
	\$ 859,753	\$ 789,084

Interest income for the year is as follows:

(In thousands of dollars)	Year Ended August 31 2008	Year ended August 31 2007
Residential Mortgage Loans	\$ 22,048	\$ 24,254
Personal Loans	7,313	7,162
Commercial Loans	19,928	16,939
	\$ 49,289	\$ 48,355

The following summarizes FirstOntario's loan portfolio by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	2008		2007	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	\$ 282,951	5.25%	\$ 232,636	6.77%
Within 1 year	58,713	6.07%	64,140	5.86%
Over 1 year	520,583	6.27%	494,525	6.10%
	862,247	5.92%	791,301	6.28%
Provision for loan losses	(2,494)		(2,217)	
	\$ 859,753		\$ 789,084	

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

4. Allowance for Impaired Loans:

A summary of the allowance for impaired loans is as follows:

(In thousands of dollars)	2008			2007		Total
	Specific	Non-Specific	Total	Specific	Non-Specific	
Balance at beginning of year	\$ 305	\$ 1,912	\$ 2,217	\$ 336	\$ 1,990	\$ 2,326
Loans written off	(641)	-	(641)	(453)	-	(453)
Recoveries	138	-	138	104	-	104
Net provision for impaired loans	509	271	780	318	(78)	240
Balance at end of year	\$ 311	\$ 2,183	\$ 2,494	\$ 305	\$ 1,912	\$ 2,217

Impaired loans on which interest was not accruing totalled \$546,000 at August 31, 2008 (2007 - \$423,000).

5. Loan Securitizations:

The following table summarizes FirstOntario's securitization activity during the year ended August 31, 2008:

(In thousands of dollars)	2008			2007		
	Residential mortgages	Personal loans	Commercial mortgages	Residential mortgages	Personal loans	Commercial mortgages
Amount securitized/sold	\$ 65,847	\$ 9,449	\$ 52,540	\$42,745	\$ 25,881	\$ 63,932
Net cash proceeds received	65,692	9,213	52,540	42,313	25,234	63,932
Retained rights to cash reserves	-	236	-	431	500	-
Retained rights to future excess spread	1,330	1,707	-	682	647	-
Pre-tax gain on sale	1,034	591	-	177	134	-
Outstanding balances of securitized loans	134,443	20,000	90,796	102,191	20,000	63,447

Retained rights are reported as investments on the consolidated balance sheet (note 6).

The following table summarizes the weighted average key assumptions at the date of securitization:

	2008			2007		
	Residential mortgages	Personal loans	Commercial mortgages	Residential mortgages	Personal loans	Commercial mortgages
Average life	4.6 years	3.9 years	na	3.4 years	3.8 years	na
Prepayment rate	22.32%	19.90%	na	22.32%	19.51%	na
Excess spread	1.20%	3.29%	na	0.52%	3.01%	na
Discount rate	5.21%	3.96%	na	6.15%	4.61%	na
Expected credit losses	0.00%	0.32%	na	0.00%	0.14%	na

The residential mortgage discount rate includes an allowance for expected credit losses.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

6. Investments:

Investments are as follows:

(In thousands of dollars)	2008	2007
Investments held as loans and receivables, amortized cost		
Fixed rate deposits	\$ -	\$ 19,840
Liquidity reserve deposits – Central 1	65,637	46,339
	65,637	66,179
Investments held for trading, fair value (2007 amortized cost)		
Bonds, debentures and other indebtedness of Canada, provinces and corporations	150	1,809
Preferred shares	2,008	3,192
Common shares	7,425	6,213
Income trusts and limited partnerships	543	2,104
	10,126	13,318
Accrued interest	916	1,280
Total liquid investments	76,679	80,777
Investments available for sale		
Amortized Cost		
ABCP 2008 Limited Partnership (a)	6,667	-
Shares – CUCO/Central 1 (b)	8,064	5,561
Fair value (2007 amortized cost)		
Retained rights – loan securitizations	4,302	3,502
Investments in joint ventures	133	154
	\$ 95,845	\$ 89,994

The fair value of investments held for trading are \$2,202,000 (2007 - \$314,000) below cost.

Market value for liquid investments was \$76,679,000 at August 31, 2008 (2007 - \$80,463,000).

The following summarizes FirstOntario's investments by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	2008		2007	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Within 1 year	\$ 64,787	3.30%	\$ 67,989	4.30%
Over 1 year	1,000	3.21%	-	-
	65,787	3.30%	67,989	4.30%
Non-rate sensitive	29,142		20,725	
Accrued interest	916		1,280	
	\$ 95,845		\$ 89,994	

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

6. Investments (continued):

(a) ABCP 2008 Limited Partnership:

At a special general meeting held May 31, 2008, members of Credit Union Central of Ontario Limited ("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.

As a pre-condition of this merger, 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 ("ABCP LP") 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 ABCP LP 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 the assets underlying the ABCP investments.

Members of CUCO were required to purchase units in the ABCP LP based on their proportionate asset size. As a result, FirstOntario was required to purchase 6,667,059 units in the ABCP LP. The fair value of these units is directly related to the ABCP investments held by the ABCP LP. As there is no active market for the underlying ABCP investments, this investment is being carried at cost. Since June 2008 there has been a subsequent deterioration in the credit markets that could negatively impact the fair value of this investment.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles and subject to an annual external audit.

(b) CUCO/Central 1 Shares:

During the year, FirstOntario as a requirement of membership was required to purchase an additional \$2,662,564 to bring its total CUCO shares to 0.90% of FirstOntario's assets on December 31, 2007.

On July 1, 2008 CUCO and CUCBC merged to form Central 1. On that date, 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 has distributed 1 Class A share to FirstOntario. The balance of the Central 1 shares and remaining cash will be distributed subsequent to August 31, 2008. On June 30, 2008 CUCO had a retained deficit of \$25.2 million. As a result, FirstOntario wrote down the value of CUCO shares by \$160,000 to represent its proportionate share of the deficit.

As there is no market for these shares classified as available for sale, these shares are carried at cost.

Central 1 requires that member credit unions maintain with them liquidity and secondary liquidity reserve deposits equal to 7% of the member credit union's assets. These reserve deposits are determined on a quarterly basis.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

7. Fixed Assets:

(In thousands of dollars)		2008		2007	
	Cost	Accumulated depreciation and amortization	Net book value		Net book value
Land	\$ 1,456	\$ -	\$ 1,456	\$	1,456
Parking lots/ Site improvements	537	351	186		165
Buildings	10,870	5,901	4,969		5,270
Equipment	10,589	8,285	2,304		2,185
Software	11,082	7,802	3,280		4,536
Leasehold improvements	3,101	1,419	1,682		1,084
	\$ 37,635	\$ 23,758	\$ 13,877	\$	14,696

Depreciation and amortization in respect of the above fixed assets for the year amounts to \$2,620,000 (2007 - \$2,760,000).

8. Members' Deposits and Shares:

(a) Members' deposits and shares, which are designated as other liabilities, are as follows:

(In thousands of dollars)		2008		2007	
Chequing		\$ 109,180	\$	104,272	
Savings		253,403		236,725	
Term Deposits		185,399		153,664	
Registered Plans		318,426		313,250	
		866,408		807,911	
Membership shares		4,876		4,769	
Investment shares		12,582		12,549	
		\$ 883,866	\$	825,229	

Included in registered retirement plans and term deposits are \$3,698,000 in Equity-Linked Deposits at August 31, 2008 (2007 - \$3,530,000). See note 10 for the related derivatives used to hedge exposure to equity market risk.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

8. Members' Deposits and Shares (continued):

Interest expense for the year is as follows:

(In thousands of dollars)	Year Ended August 31 2008	Year ended August 31 2007
Chequing	\$ 203	\$ 366
Savings	6,176	6,080
Term Deposits	7,275	5,826
Registered Plans	12,142	11,566
Membership shares	341	330
	26,137	24,168
Investment shares	570	684
	\$ 26,707	\$ 24,852

The following summarizes FirstOntario's members' deposits by the contractual repricing or maturity date, whichever is earlier:

(In thousands of dollars)	2008		2007	
	Principal Balance	Average Yield	Principal Balance	Average Yield
Floating	\$ 208,531	2.37%	\$ 188,766	3.16%
Within 1 year	225,495	3.91%	197,874	4.09%
Over 1 year	269,125	3.99%	260,046	3.76%
	703,151	3.48%	646,686	3.68%
Non-rate sensitive	180,715		178,543	
	\$ 883,866		\$ 825,229	

(b) Members' deposits and investment shares held in registered plans are as follows:

(In thousands of dollars)	2008	2007
Registered savings plans		
Deposits	\$ 214,688	\$ 203,875
Investment shares	4,382	4,525
	219,070	208,400
Registered income funds		
Deposits	103,738	109,375
Investment shares	3,883	4,042
	107,621	113,417
	\$ 326,691	\$ 321,817

Concentra Financial Services Association acts as the trustee for the majority of FirstOntario's tax deferred savings plans (registered retirement savings plans and registered retirement income funds). FirstOntario accepts deposits on behalf of the trustee and retains the funds deposited.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

8. Members' Deposits and Shares (continued):

(c) FirstOntario's shares:

Authorized

An unlimited number of membership shares. Such shares are issued for \$5 each and members under the age of twenty-one must hold one membership share while those twenty-one and over are required to hold at least five shares and increase their holdings of membership shares to twenty-three shares over an eighteen year period. Membership shares are redeemable, on withdrawal from membership, at the amount paid thereon provided the credit union is meeting the "capital adequacy" requirements (see note 16(c)) and they rank junior to Class A and Class B special shares for priority in the payment of dividends.

An unlimited number of Class A and Class B special shares. Such shares are generally non-voting and non-participating with non-cumulative dividend entitlements. In respect of dividends, both classes rank senior to the membership shares and the Class B special shares rank ahead of the Class A special shares.

The Board of Directors has authorized a Series 1 and Series 2 for Class B special shares ("investment shares"). The investment shares have an issue price of \$1 each and are entitled to receive dividends if, as and when declared by the Board of Directors. Investment shares are generally redeemable at the holder's request 3 years subsequent to issue for Series 1 and 5 years subsequent to issue for Series 2. In any fiscal year, redemptions are restricted to 10% of the respective series of the outstanding investment shares.

Issued and Outstanding

(In thousands of dollars)	2008	2007
Membership shares:		
975,141 (2007 – 953,828) Membership Shares	\$ 4,876	\$ 4,769
Investment shares:		
5,407,843 (2007 – 5,316,470) Class B, Series 1, Special Shares	\$ 5,408	\$ 5,317
7,174,377 (2007 – 7,232,285) Class B, Series 2, Special Shares	7,174	7,232
	\$ 12,582	\$ 12,549

On January 11, 2008, the Board of Directors approved the issue of 273,630 Class B, Series 1, Special Shares and 370,243 Class B, Series 2, Special Shares in payment of a dividend for the year from December 1, 2006 to November 30, 2007. In addition, 182,257 Class B, Series 1, Special Shares and 428,151 Class B, Series 2, Special Shares were redeemed during the year.

9. Loans Payable:

The Central 1 operating loan bears average interest of 3.51%, payable monthly; principal is due on December 2008 with an option of pay out September 2008, which was exercised. Security pledged is set out in note 14(c). The Central 1 operating loan has been designated as Other Liabilities.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

10. Derivative Financial Instruments:

(a) Asset liability management:

In the ordinary course of business, FirstOntario purchases derivative instruments from Central 1 in order to hedge against exposure to interest rate fluctuations.

Derivative instruments have a fair value that varies based on the particular instrument and changes in interest rates. The purpose of these instruments is to provide a hedge against interest rate fluctuations by improving FirstOntario's matching of its asset and liability position.

(b) Product related:

FirstOntario offers deposit products linked to changes in equity indexes or specific bundles of equities. FirstOntario hedges the underlying risk of these products by entering into equity-linked purchase option contracts. Under the terms of these contracts, FirstOntario will receive payments equal to the future payments to members.

(c) Foreign exchange forward contract:

FirstOntario offers deposit products denominated in US dollars. In order to meet liquidity reserve requirements FirstOntario sells US dollars and purchases US dollar foreign exchange forward contracts to hedge the exchange risk.

The following table summarizes the notional amounts, maturities and fair values of FirstOntario's derivative portfolio:

(In thousands of dollars)							
	With in	1 to 5	Over		Fair Value		
	1 year	years	5 years	Total	Assets	Liabilities	
Pay fixed							
interest rate swaps	\$ 6,428	\$ 148,875	\$ 10,000	\$ 165,303	\$ -	\$ (4,108)	
Float pay and							
float receive	-	13,000	-	13,000	-	(115)	
Equity-linked options	1,333	2,365	-	3,698	1,270	(968)	
Foreign exchange forward							
contract	7,300	-	-	7,300	249	-	
	\$ 15,061	\$ 164,240	\$ 10,000	\$ 189,301	\$ 1,519	\$ (5,191)	

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposure. Notional amounts are not exchanged.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

10. Derivative Financial Instruments (continued):

The Credit Union has off-balance sheet credit risk which arises from the possibility that counterparty to an interest rate contract could default on their obligation to the Credit Union. However, credit risk associated with interest rate contracts is normally a small fraction of the notional principal amount of the contract. Interest rate contracts expose the Credit Union to loss only if changes in market rates cause a material unfavourable affect on a counterparty's position, which could then lead to the counterparty defaulting on its payment. The Credit Union only enters into derivative contracts with a counterparty that the Credit Union has determined to be creditworthy.

11. Fair Values of Financial Instruments:

The following table represents the fair values of FirstOntario's on and off-balance sheet financial instruments. The fair values disclosed do not include the value of assets that are not considered financial instruments, such as fixed assets. The value of intangibles such as long-term member relationships are also not included in the fair value amounts, although FirstOntario considers the value of intangibles to be significant.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, some of FirstOntario's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuations techniques and may not be indicative of the net realizable values.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

11. Fair Values of Financial Instruments (continued):

(In thousands of dollars)	2008			2007		
	Book Value	Fair Value	Fair Value Difference	Book Value	Fair Value	Fair Value Difference
Financial Assets						
Loans receivable	\$ 864,194	\$ 877,775	\$ 13,581	\$ 792,416	\$ 787,009	\$ (5,407)
Cash	11,843	11,843	-	15,781	15,781	-
Investments	95,845	95,845	-	89,940	89,622	(318)
Derivative financial instruments	1,519	1,519	-	-	2,307	2,307
	\$ 973,401	\$ 986,982	\$ 13,581	\$ 898,137	\$ 894,719	\$ (3,418)
Financial Liabilities						
Deposits and shares	\$ 894,655	\$ 910,779	\$ (16,124)	\$ 834,589	\$ 835,744	\$ (1,155)
Loans	47,000	47,051	(51)	30,000	30,064	(64)
Accounts payable and accrued liabilities	8,709	8,709	-	13,328	13,328	-
Derivative financial instruments	5,191	5,191	-	-	1,330	(1,330)
	\$ 955,555	\$ 971,730	\$ (16,175)	\$ 877,917	\$ 880,466	\$ (2,549)

Interest rate sensitivity is the main cause of change in fair values of FirstOntario's financial instruments. Classification of these Financial Assets and Financial Liabilities and their respective impact on the Consolidated Financial Statements are described in the chart provided in note 1(b) included herein.

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

- The fair values of cash and accounts payable and accrued liabilities are assumed to approximate their book values, due to their short-term nature.
- The estimated fair value of floating rate loans, demand deposits and floating rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits reprice to market on a periodic basis.
- The estimated fair values of fixed rate investments, fixed rate loans and fixed rate deposits are determined by discounting the expected future cash flows of these investments, loans, deposits and borrowings at current market rates for products with similar terms and credit risks.
- The estimated fair values of derivative instruments are determined through valuation models on the derivative notional amounts, maturity dates and rates.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

12. Income Taxes:

FirstOntario's effective income tax rate is derived as follows:

	August 31 2008	August 31 2007
Combined basic Canadian Federal and Ontario income tax rate	42.4%	43.1%
Small business and credit union deductions	(21.6)	(22.9)
Income and expense permanent differences	(6.1)	(2.8)
Tax rate change	3.9	0.2
Prior year adjustment	(0.4)	0.2
Other	0.1	0.3
Effective income tax rate	18.3%	18.1%

13. Interest Rate Sensitivity:

FirstOntario offers a range of financial products for which the cash flows are sensitive to interest rate changes. Interest rate risk arises from on and off-balance sheet cash flow mismatches. FirstOntario's interest rate risk as at August 31, 2008 was within regulatory guidelines.

The following table summarizes carrying amounts of Consolidated Balance Sheet assets, liabilities and equity, and derivative instruments to arrive at FirstOntario's interest rate gap based on the earlier of contractual repricing and maturity dates:

(In thousands of dollars)

	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 years	Non Interest Sensitive	Total
Assets						
Loans receivable	\$ 293,439	\$ 48,225	\$ 508,669	\$ 11,914	\$ 1,947	\$ 864,194
Cash	-	-	-	-	11,843	11,843
Investments	11,170	53,617	1,000	-	30,058	95,845
Other	-	-	-	-	21,095	21,095
	304,609	101,842	509,669	11,914	64,943	992,977
Liabilities and equity						
Deposits and shares	264,464	169,562	269,125	-	191,504	894,655
Loans	47,000	-	-	-	-	47,000
Other	-	-	-	-	51,322	51,322
	311,464	169,562	269,125	-	242,826	992,977
On-balance sheet gap	(6,855)	(67,720)	240,544	11,914	(177,883)	-
Off-balance sheet gap	74,810	594	(66,746)	(8,658)	-	-
Interest rate gap 2008	\$ 67,955	\$ (67,126)	\$ 173,798	\$ 3,256	\$ (177,883)	\$ -
Interest rate gap 2007	\$ (57,083)	\$ (30,920)	\$ 258,972	\$ 11,632	\$ (182,601)	\$ -

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

14. Commitments:

(a) Leases:

FirstOntario leases space for most of its branches and some computer equipment. Total future lease payments are as follows:

(In thousands of dollars)

2009	\$	970
2010		886
2011		594
2012		413
2013		407
Aggregate for years thereafter		1,239

(b) Mortgage commitments and lines of credit:

At August 31, 2008, FirstOntario has issued commitments to provide residential mortgage and commercial loans totalling \$53.3 million. FirstOntario has also provided lines of credit to Members totalling \$402.0 million at August 31, 2008, against which Members have drawn \$186.3 million.

(c) Credit facilities:

Central 1 has provided an operating loan facility to FirstOntario of \$85.0 million. Loans to Members have been pledged as security for this facility and the term loan by an assignment of book debts and a general security agreement. See the Consolidated Balance Sheet and note 9 for the outstanding amount on this facility.

(d) Contracts:

Banking system support services and software maintenance totaling \$0.8 million over the next 2 years.

Interac ATM and point of sale switching servicing totaling \$3.5 million over the next 6 years at present service levels.

15. Employee Retirement Benefits:

FirstOntario provides retirement benefits to certain employees. These benefits include group RRSP's, registered pension plans, medical benefits, dental care and life insurance.

The fair value of accrued benefit obligations were determined by independent actuaries as at August 31, 2008.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

15. Employee Retirement Benefits (continued):

(In thousands of dollars)	Defined Benefit Pensions		Other Defined Benefit Plans	
	2008	2007	2008	2007
Accrued benefit obligation				
Balance at the beginning of year	\$ 9,084	\$ 8,793	\$ 6,540	\$ 6,661
Current service cost	281	341	117	187
Interest cost	469	495	342	370
Benefits paid	(941)	(331)	(151)	(99)
Actuarial loss (gain)	(840)	(214)	(1,221)	115
Past service costs	19	-	-	-
Curtailment	-	-	-	(694)
Balance at end of year	8,072	9,084	5,627	6,540
Plan assets				
Fair value at beginning of year	8,649	7,747	-	-
Annual return on plan assets	(387)	505	-	-
Employer contributions	593	713	151	99
Employee contributions	14	15	-	-
Benefits paid	(941)	(331)	(151)	(99)
Fair value at end of year	7,928	8,649	-	-
Funded status – deficit	(144)	(435)	(5,627)	(6,540)
Unamortized net actuarial loss (gain)	2,045	2,006	(750)	558
Unamortized past service costs	137	131	-	-
Unamortized transitional obligation (asset)	(103)	(131)	329	496
Accrued benefit asset (liability)	\$ 1,935	\$ 1,571	\$ (6,048)	\$ (5,486)

The following table provides the amounts recognized in the Consolidated Balance Sheet as follows:

(In thousands of dollars)	Defined Benefit Pensions		Other Defined Benefit Plans	
	2008	2007	2008	2007
Prepaid benefit costs recorded in other assets	\$ 2,331	\$ 1,981	\$ -	\$ -
Accrued benefit liability recorded in other liabilities	396	410	6,048	5,486
Net amount recognized	\$ 1,935	\$ 1,571	\$ (6,048)	\$ (5,486)

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

15. Employee Retirement Benefits (continued):

The significant actuarial assumptions adopted in measuring FirstOntario's accrued benefit obligation are as follows (weighted-average assumptions):

	<u>Defined Benefit Pensions</u>		<u>Other Defined Benefit Plans</u>	
	2008	2007	2008	2007
Discount rate	6.00%	5.25%	6.00%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.50%	-	-
Rate of compensation increase	3.00%	3.00%	-	-

For measurement purposes, 10.0% and 3.0% rates of increase in the per capita cost of covered health care and dental care benefits respectively were assumed for 2009. The rate for health care benefits was assumed to decrease to 5.0% by 2014 and remain at that level thereafter. The rate for dental care benefits was assumed to remain unchanged at 3.0%.

A one percentage-point change in assumed health-care cost trend rates would have the following impact on other defined benefit plans:

(In thousands of dollars)	2008	
	Obligation	Expense
1% increase	\$ 745	\$ 1,010
1% decrease	(723)	(927)

FirstOntario's net benefit plan expense is as follows:

(In thousands of dollars)	<u>Defined Benefit Pensions</u>		<u>Other Defined Benefit Plans</u>	
	2008	2007	2008	2007
Current service cost, net of employee's contributions	\$ 267	\$ 344	\$ 117	\$ 187
Interest cost	469	495	342	370
Expected return on assets	(551)	(516)	-	-
Amortization of past service costs	13	13	-	-
Amortization of net actuarial loss	61	108	-	47
Amortization of transitional obligation	(28)	(29)	167	166
Curtailment loss	-	-	-	53
Net benefit plan expense	\$ 231	\$ 415	\$ 626	\$ 823

(In thousands of dollars)	<u>Defined Contribution Pension</u>	
	2008	2007
Net benefit plan expense	\$ 648	\$ 551

These net benefits expenses are included in Salaries and employee benefits on the Consolidated Statement of Earnings.

FIRSTONTARIO CREDIT UNION LIMITED

Notes to Consolidated Financial Statements

For the year ended August 31, 2008

16. Required Disclosures:

The following disclosures are required by the Credit Unions and Caisses Populaires Act, 1994 (Ontario):

- (a) The aggregate remuneration paid to directors was \$162,000 in 2008 (2007 - \$172,000).
- (b) Outstanding loans to directors and officers of FirstOntario amounted to \$2,252,000 at August 31, 2008 (2007 - \$1,488,000).
- (c) Regulatory compliance:

Under the Regulations of the Act, FirstOntario must maintain minimum levels of capital and liquidity. At August 31, 2008, FirstOntario complied with these requirements as follows:

	Required Minimum	Actual
Leverage ratio (members' capital to assets)	4.00%	5.66%
Risk capital ratio (members' capital to risk weighted assets)	8.00%	8.71%
Liquidity (cash and short term investments to members' deposits)	8.00%	8.33%

17. Comparative Figures:

Certain comparative figures have been reclassified to conform with the financial presentation adopted during the current year.