



INVESTING • BORROWING • BANKING

Annual Report

October 1, 2007 to September 30, 2008



Moving Forward

Our Co-operative Principles

Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

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Vision Statement

To become the preferred financial institution in Eastern Ontario.

Mission Statement

To provide personalized and competitive financial services while maintaining Member confidence and loyalty.

Report of the Board of Directors

This report of the Board covers one of the most difficult periods of Unity's history. I will give a general overview of our past year on which Mark Michener our Chief Executive Officer will expand in his report.

In preparing this report, I reviewed those from 2006 and 2007. A common thread of less than desired performance and high loan loss is evident in spite of moderate corrective actions being applied.

Please refer to the income chart below. It covers Unity's monthly income for the period from January 2006 thru the end of fiscal year 2008. A trend line has been applied to aid in interpretation.

As you can see, a serious decline in income began in the first quarter of 2007. The prime causes were high loan default rates and high cost of operating a large number of branches in a period of declining margins.

The management team developed and implemented a restructuring plan with the complete approval of the Board of Directors. The re-structuring process was introduced in May of 2008, with the closing of three branches and the corresponding

staff reductions. The effect worked its way through the income reports by July 2008 as you can see on the graph.

In addition, the consumer loans area has implemented stringent measures to understand the reasons for and reduce loan delinquency.

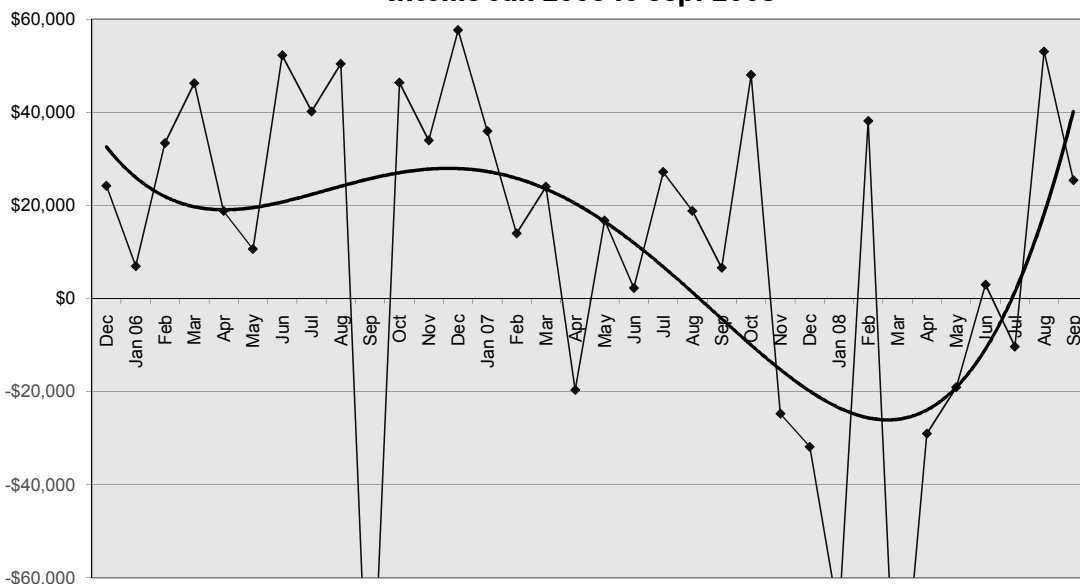
The commercial loans area remains strong with controlled growth and consistent returns.

As you can see, early term indications are that the restructuring has accomplished the required turn around, and a continued tight monitor and control of expenses should carry Unity into the future.

On behalf of the Board of Directors and myself, I wish to express our sincere appreciation to the staff and management for working through this very stressful and demanding time. Many individuals stepped forward and put out the extra effort when it was most needed.

Thank you,
Bill Green
Chair

Income Jan 2006 to Sept 2008



Trend line does not include the one time restructuring cost

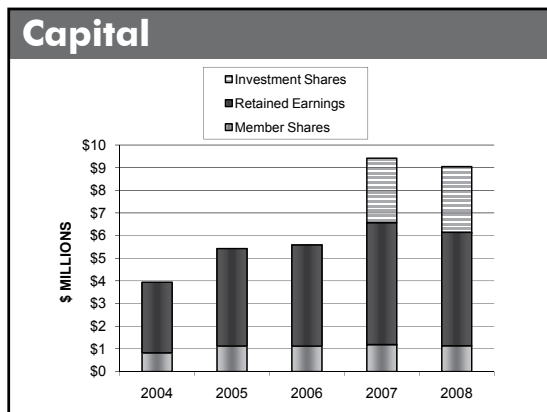
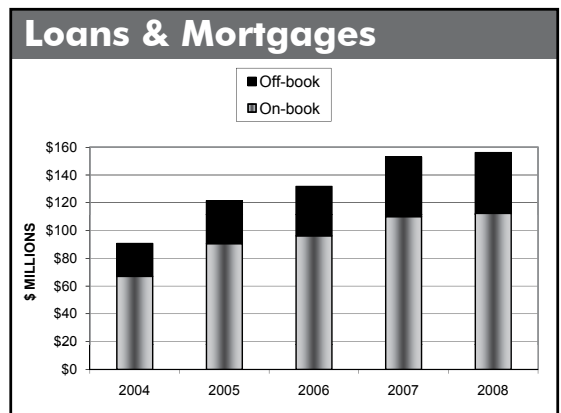
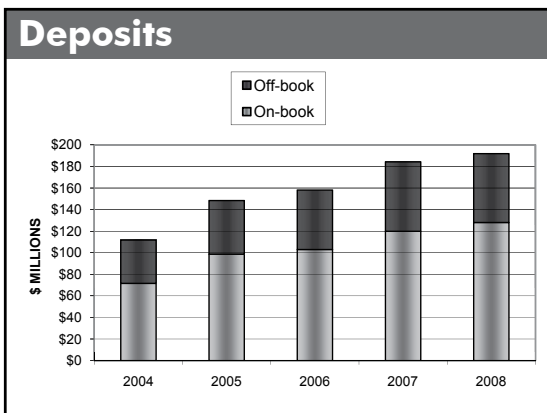
Unity Profile

During a volatile and uncertain time in the economy, Unity has remained strong in many key areas, and has continued to grow as your preferred financial institution.

Unity is committed to supporting its Member Owners with competitive financial products and services. We'll continue to add to our technological capabilities, as seen by the new website launched the latter of 2007, which allows us to educate our members on both existing and new products, and allows us to communicate current issues surrounding the credit union.

2007-2008 saw the restructuring of Unity's Management team, allowing us to focus in key areas, as well a reorganization of a few of our branch locations, resulting in the closing of three branches. Even through this difficult time, our staff have been focused on member service, to help make this transition as seamless as possible.

Despite these challenges, Unity looks forward to both strengthening and growing existing Member relationships, as well as fostering new ones.



Report of the Chief Executive Officer

This past year has been one of the most challenging in my 23 years as CEO and in Unity's 57 years. Unity has, for over a decade, been merging with other area Credit Unions, thus becoming larger. Throughout the expansions, we developed additional members and business, but also gained a high cost base with many small branches. The market conditions this year forced us to look for efficiencies. The very hard decision was made to close three of our nine offices. The decision to close offices impacted on member service, and we were not able to retain all our valuable staff. Two of the closed offices were located inside industrial plants; however, Unity members are now being looked after at community-based locations. The other office impacted was our Smiths Falls branch. This branch had continuing losses since it merged with Unity in October 2005. We utilized our best efforts to build and grow business, but the losses in Smiths Falls remained and we had no indication that financial results would improve. The difficult choice was made to close the branch. The closure of this community-based office resulted in a lack of Unity presence for members from the Smiths Falls area.

After the restructuring at the end of May 2008, which involved both the closing and consolidation of branches, we have succeeded in reducing our operating costs by \$50,000 per month, and have also strengthened the six branches that remain. Unity now has 12,200 Owners with six offices in four communities.

The Credit Union has had significant financial pressure this past year. Our financial margins were impacted from the stress in the financial markets. The Canadian Asset Backed Commercial Paper

(ABCP) investments were frozen a year ago in August 2007, and since then, financial markets, including interest rates, have been behaving in unusual ways. Short term Prime rate has been falling, but the amount paid for member deposits has increased. Our financial margin has shrunk from 4% at the start of the year to 3% in September.

ABCP has two additional impacts on Unity. We purchased \$669,992 in frozen ABCP from Unity members who had purchased them as liquid investments from our Credential Security brokerage office. Unity has not received interest on these funds and has contributed \$66,994 to the Credential rescue program that returns the full principle of the investments. Also, our Credit Union Central in Ontario owned significant ABCP investments. Holding these investments impacted on the Ontario Central's financial performance, and in order for them to complete the merger with the Central from British Columbia, the ABCP ownership was transferred to the Ontario Credit Unions. Unity's allocation was \$967,945.

The difficult year was compounded by modest loan volumes. Members have been paying down personal loans to lower interest costs, often using their home equity to borrow. Our loan losses from delinquency have remained at high levels, and efforts to decrease our exposure to losses by tightening credit criteria has further impacted to reduce loan volumes. Strong loan growth in Home Equity Lines of Credit (Meritline) and commercial loans were accompanied by drops in personal loans and mortgages. Assets have increase to \$138 million. Deposits increased by 7% to \$128 million, with growth focused in higher interest term deposits and RRSP's.

Report of the Chief Executive Officer Cont'd

After the branch closures at the end of May, we continued to pay salary and benefits for severed staff until mid-July, and then the former employees were paid lump sum severances. The restructuring costs of \$369,710 are made up mostly of these severances, but also include costs directly associated with closing the offices.

The income from operations for the year was \$10,141; after the restructuring costs and the ABCP rescue contribution, we have a significant loss of \$380,313. With this difficult year of restructuring and market turmoil behind, we remain in a solid financial position. We have returned to an expense position that results in net income each month. Our Capital ratio is 6.7%, well above statutory requirements of 4.25%, and liquidity at 16%, well above the required 8% and above our historical trends. We have maintained higher liquidity this past year to make sure that our member borrowing requirements were met during the credit market turmoil.

The Board has approved and we have paid a dividend of 5.55% to our Investment Share holders. This return equals the average 5 year term deposit rate at month end plus 1.5%. Looking forward to next year, I will be working with the Unity Directors to strengthen member service, and improve our products and effectiveness. Unity has a knowledgeable team that is eager to help Unity become stronger and consistent across all branches. The focus will remain on improving our service levels, enhancing products and helping our Owners achieve their financial goals. I am confident that Unity is positioned to thrive and improve in 2009. We will "grow together" as Owners achieve financial success.

I want to express my sincere thanks to the Chair of the Board of Directors, Bill Green, who has provided guidance and support through this past year's challenges, the Board of Directors, and our Unity Staff who add that special trust-relationship that makes Unity your preferred Financial Institution. I'd also like to thank you, our Owners, for your continued business and support. I am looking forward to the coming year.

Respectfully submitted,
Mark B. Michener C.A.
Chief Executive Officer

Report of the Director, Retail Lending

We have experienced a better year than the previous year reported, as it relates to delinquency. In 2007, we reported \$580,138 in delinquent or non-performing loans; 2008 reports a reduction to \$391,466 which translates to \$188,672 annually or a significant 33% reduction in that time period.

Approved loans	Oct. 2007-Sept 2008		Oct. 2006-Sept. 2007		Difference Amount
	#	Amount	#	Amount	
Personal Loans	568	\$6,717,330	883	\$10,323,434	-\$3,606,104
Lines of Credit	451	\$3,538,351	716	\$1,896,508	+\$1,641,843
Mortgages	94	\$8,797,540	146	\$15,385,092	-\$6,587,552
Meritlines	129	\$11,893,198	142	\$16,616,053	-\$4,722,855
Declines	478	\$8,734,394	495	\$11,753,022	-\$3,018,628

Outstanding Balances	Sept 30, 2008	Sept 30, 2007
Personal Loans	\$29,366,578	\$35,951,262
Meritlines- Equity loans	\$46,366,816	\$41,033,216
Mortgages	\$21,114,736	\$24,146,069
Mortgages funded by Concentra	\$43,786,064	\$42,886,939
Total	\$140,634,194	\$143,987,486

It is easy to recognize from a quick glance that our loan numbers are down significantly, especially where it relates to personal loans and mortgages. This reduction is for a number of reasons, some of which is due to global trending such as housing markets, cost of living and economic downturns. Decreases in our loan portfolio may also be a reflection of our restructuring in May, where we had several payouts from the Smiths Falls region, particularly due to the inconvenience placed upon these members.

We also had a significant slow down in loan volumes due to the turmoil of the subprime market early last fall, giving us a delayed start in an already challenging year. We tightened up our lending criteria which was a commitment made to the membership last year, which created a natural slow down in loan growth, but ultimately reduced delinquency volumes. At the same time, Unity gained a very successful year with our annual loan campaign.

We maintained many good accounts despite the restructure, and we continue to strengthen these relationships. Our Personal Line of Credit is still a popular product and we continue to see increases in this portion of the loan portfolio as the product offers ease of access and convenience to the member instead of the regular loan application process.

Unity is committed to working towards growth in the loan portfolio, as well as striving towards lower delinquency levels. We are cognizant of our economic environment, our challenges and our opportunities; we look forward to having a successful year with a strong workforce to support this.

Respectfully submitted by,
Lisa Chatterton
 Director of Retail Lending

Report of the Director, Commercial Lending

As previously planned, the Commercial portfolio continues to grow at a slow and controlled pace. This is by design, as we want to make certain that we are selective and that we have a maximum impact on Unity's earnings. At the same time, it is our wish to select quality Commercial volume that will help us to also grow in other areas of our operations. Traditionally, Commercial accounts have the ability to open many doors for us. To cite just a few examples: loans and mortgages to the employees of our corporate connections, group RRSP's, large deposits, as well as testimonial references to other potential corporate clients. As you can see from the following results, there has been some substantial growth for 2008 in the Commercial portfolio.

We are most certainly being noticed as serious Commercial lenders in our market areas, and elsewhere in Ontario. Others are looking to Unity for the syndication of large loans and in many instances, we are the lead Credit Union lender on numerous advances. Typically, our syndicated share of our own portfolio only represents one quarter of the total connections held with our syndication partners. In other words, the Unity total authorizations likely represent total connections within other Credit Unions of nearly \$73M dollars, based on the outstanding authorizations of \$18.2M ($\$18.2\text{M} \times 4 = \73M). The following represents a summary of our commercial lending activities during the past twelve months:

Commercial Loans	#	\$ 12 months ending Sept. 2008	#	\$ 12 months ending Sept. 2007	#	\$ 12 months ending Sept. 2006
Commercial loans, Operating lines, Mortgages & Reviews Authorized	65	\$20,781,247	53	\$12,968,497	27	\$6,448,975
Commercial Declines/Deferred	41	\$25,084,500	31	\$18,841,000	35	\$10,449,000
Total Commercial Activity	106	\$45,865,747	84	\$31,809,497	62	\$16,897,975

In addition to this volume, and included in the outstanding balances depicted below, the Credit Union also currently operates Commercial Lines of Credit totaling \$3,233,360 for which monthly tracking/margining is required.

Outstanding Balances	\$ As at Sept. 30, 2008	\$ As at Sept. 30, 2007	\$ As at Sept. 30, 2006
Commercial Loans, Operating Lines & Mortgages	\$15,475,858	\$9,132,374	\$6,416,037

Our branch staff has been very supportive of our Commercial operations and we would also like to take this opportunity to thank all of you for your cooperation and support. Unity's Commercial portfolio is still growing and it is still a solid segment of our operations. Once again, we are pleased to advise you that this year, we have contributed over \$523,000 net, to the bottom line.

Respectfully submitted,
 Angela Weidenaar, Commercial Lending Administration
 and
 Pierre Marcotte, Director of Commercial Lending

In Your Community

Unity Savings has continued its commitment to the communities we serve, and are supporting and assisting with programs that will enrich the lives of others. Our focus is to remain an integral part of our communities – through donations, sponsorships and volunteer commitments from our staff.

The purpose of the Community Relations Committee is to help create a unique, ongoing image for Unity Savings within the communities it serves, ensuring that Unity contributes to the community, and is acknowledged as a vital member of the community.

The mandate of the Committee is to champion the social responsibility of Unity in the localities in which they are located as directed by the Board of Directors. Under Board direction, the Committee has the responsibility of ensuring Unity will invest our dollars responsibly in the communities where we live and work, and that donations are responsibly managed.

During the past year, Unity has supported the following:

Brockville

- United Way of Leeds & Grenville
- Breast Cancer Awareness
- Salvation Army
- Operation Harvest Sharing (local food bank)

Cornwall

- United Way Day of Caring (United Way of Stormont, Dundas and Glengarry)
- Canadian Legion
- Canadian Red Cross
- St. Hubert M.S. Golf tournament
- Seaway Valley Soccer Club
- Cornwall Canada Day
- Ontario SPCA
- Cornwall Community Hospital
- Seaway M.E./FM Self Help Group

Kingston

- Alzheimer's Coffee Break Day
- Canadian Breast Cancer Foundation
- Greater Kingston Santa Claus Parade
- Kingston Rotary Club
- University Hospitals Kingston Foundation
- Kingston General Hospital Auxiliary Teddy Bear Campaign
- Jeannine Perry Memorial Golf Tournament
- Heart & Stroke Big Bike
- KFL&A United Way

Napanee

- Hospice Lennox & Addington
- Lennox and Addington County General Hospital
- Napanee Minor Hockey House League

One of the seven cooperative principles that cooperatives and credit unions are guided by, includes: Concern for Community, which is shown through Unity's philanthropic approach. We would like to take this opportunity to sincerely thank all of those who donate their time to support these various community organizations, including our staff, management, and the Directors of our Board. We could not have done it without your help. Thank you!

Respectfully submitted,
The Community Relations Committee

Report of the Audit Committee

Audit Committee Members

Chair	Chuck Quick
Secretary	Rod Slack
Member	Ernie Frink
Member	Ken Wingert

The Audit Committee has met quarterly with the external auditors, the Chief Executive Officer, the Director of Finance and the Chair of the Board.

During the year we have reviewed reports and policies in the following areas:

- Disaster test
- Financial statements
- External and Internal Auditor reports
- Internal controls

The Audit Committee is convinced that the financial reporting systems and controls are adequate, and that the Credit Union satisfies all regulatory requirements.

The DICO Audit in August found a few areas for improvement. We were found effective in the following five areas:

- Governance
- Credit Risk Management
- Operational Risk Management
- Market Risk Management
- Structural Risk Management

I wish to thank the committee members, and others who assisted us during the year.

Respectfully submitted on behalf of the Audit Committee,

Chuck Quick

Chair

Board of Directors

Chairperson	Bill Green
1st Vice Chair	Dave Standen
2nd Vice Chair	Sheena Lucas
Secretary	Charlie Cooney
Board Member	Chuck Quick
Board Member	Dennis Hamilton
Board Member	Ed Mooney
Board Member	Ernie Frink
Board Member	Kenneth Wingert
Board Member	Larry Burrows
Board Member	Rodney Slack

Balance Sheet

As at September 30, 2008

	Audited September 30, 2008	Audited September 30, 2007	Unaudited November 30, 2006
ASSETS			
Cash and short-term deposits (note 6)	\$ 2,926,457	\$ 7,158,258	\$ 2,810,313
Investments (note 7)	19,895,021	11,007,660	10,732,088
Investment in Asset-Backed Commercial Paper Limited Partnership (note 8)	967,945	-	-
Loans to members (note 9)	112,325,760	110,025,314	95,530,595
Other assets (note 10)	424,938	440,239	534,050
Property, plant and equipment (note 11)	1,232,924	1,520,685	1,637,636
Future income taxes (note 12)	80,779	73,902	52,127
	<u>\$ 137,853,824</u>	<u>\$ 130,226,058</u>	<u>\$ 111,296,809</u>
LIABILITIES			
Members' deposits (note 13)	\$ 128,026,735	\$ 119,891,693	\$ 104,992,800
Other liabilities (note 14)	775,385	915,308	648,890
	<u>128,802,120</u>	<u>120,807,001</u>	<u>105,641,690</u>
REGULATORY CAPITAL			
Liabilities - Members' shares (note 15)	1,137,577	1,190,387	1,124,231
- Class B investment shares (note 16)	2,908,240	2,842,470	-
Equity - Reserve and undivided earnings	5,005,887	5,386,200	4,530,888
	<u>9,051,704</u>	<u>9,419,057</u>	<u>5,655,119</u>
	<u>\$ 137,853,824</u>	<u>\$ 130,226,058</u>	<u>\$ 111,296,809</u>

In Memoriam

William Amey
William Baker
David J Ballantyne
Ann Barlow
Doris Boneham
Tom Braiden
Norma Brierley
Gordon Brown
Annie Burtch
Donald J Cain
Emmard Carl
Reta Childerhose
Robert Chinnery
Jack Cliff
Morgan Wayne Cummings
Dorothe Desrosiers
Peter Eamon
Anita Esford
Mary Patricia Fitzpatrick
James Flint
Robert Fry
Terry Gray
Herbert Griese
Bill Griffith
Elwin Hamilton
G Ward Hay
George Newton Hosick
Linda Hubert
Marjorie Kelsey
Neil Lacey
Dorothy Langsford
Kathy Lavigne
Geoffrey James Lee
Robert Allan Levere
Robert Long
Milford Duane Love
Dorothy MacDonald
Robert Magee
James Mallan
Bruce Marchen
Dale McAndrews
John C McClinton
Clay McCrea
Grace McPherson
Simone Menard
Fernand Menard
Patricia Morin
Carl Murphy
James Neil
Don Neville
Bernadette Nicholson
Gabriel O'Brien
Fernand Paquette
Bessie Parrington
Sharron Pitcher
Arthur J Poore
Nelda Pye
Dwight Reid
Rita Samson
Christine Seymour
Custodia Silva
Daniel Sorbie
Ronald Street
Lorne W Tanney
Richard F Taylor
Arthur Teal
William L Tedford
Dorothy Thomas
William Thompson
Lillian Valiquette
Anna H Verner
Gail Vescio
Maynard Whitford
Craig Wilson
Pearl York
William Young

Carolina : Cover | Printed on PEFC Certified Paper

The inside pages are printed using 30% recycled Post Consumer Fibre and is FSC Certified.
This paper is manufactured in Canada using Bio Gas, and is Environmental Choice Certified.



Six Convenient Locations to Serve You:

Kingston Offices:

Bayridge Branch

775 Strand Blvd.
Kingston, ON K7P 2S7
613-389-7721

Health Care Branch

166 Brock St.
Kingston, ON K7L 5G2
613-544-0038

Princess Street Branch

850 Princess St.
Kingston, ON K7L 1G3
613-546-4209

Brockville Office:

2495 Parkedale Ave.
Brockville, ON K6V 3H2
613-342-6365

Cornwall Office:

1360 Marleau Ave., Unit 1
Cornwall, ON K6H 2W8
613-938-7452

Napanee Office:

136 Richmond Blvd.
Napanee, ON K7R 3Z7
613-354-6678

