

2008 ANNUAL REPORT



Let's talk numbers.

Corporate Profile

Coast Capital Savings is Canada's second largest credit union with total assets under administration of \$12.3 billion, 404,000 members, and 50 branches located across the Metro Vancouver and Vancouver Island regions of British Columbia. For the ninth year, Coast Capital Savings ranked among Canada's 50 Best Managed Companies and is now recognized as a Platinum Member of this prestigious designation for continued excellence. Coast Capital Savings also continues to be one of only 110 Canadian companies recognized as a Caring Company by Imagine Canada and was named one of BC's Top 50 Employers.

Vision

Yes, from Coast to coast. Demonstrates our commitment to growth and to remaining a relevant and innovative financial services provider in Canada.

Mission

Simple financial help recognizes our goal of providing easy-to-understand solutions to our members' complex financial situations.

Values

We have a passion for innovation.

We engage in spirited teamwork.

We help our customers, communities, and each other.

Products and Services

Personal – savings and chequing accounts (including Canada's first high-interest savings account with no transaction fees and first free chequing account from a full-service financial institution), US chequing account, term deposits (offered with our unique Hagggle-free Guarantee®), RRSPs, RESPs, RRIFs, Tax-Free Savings Accounts, mutual funds, safety deposit boxes, mortgages, loans, lines of credit, credit cards, travellers cheques, foreign currency, drafts, lending insurance, telephone banking, online banking, ATMs, online brokerage, and mortgage brokerage centre.

Business – savings and chequing accounts (including Canada's first unlimited business account), community chequing account with free transactions for non profit organizations, US chequing account, business credit card, merchant services, loans to small- and medium-sized businesses, equipment financing, interim lending and long-term mortgages, letters and lines of credit, ATM business depository, and automated funds transfer.

Subsidiaries

Coast Capital Insurance Services Ltd. offers general insurance products including auto, home, travel, recreational, marine, business, and commercial insurance at 36 locations across the Metro Vancouver and Vancouver Island regions. Marriage licenses are available at most offices. Specialized insurance staff also provide advice and service related to segregated funds, annuities, life insurance, and living benefits products.

Coast Capital Equipment Finance Ltd. specializes in leasing commercial and industrial equipment to clients located from Alberta to Ontario. The company offers flexible, innovative, and competitive leasing plans combined with unparalleled customer service. Similar commercial leasing plans are available in British Columbia through Coast Capital Equipment Finance, a division of Coast Capital Savings.



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2008 Performance Against Targets

Net income

All revenue less expenses and taxes



Return on average assets

Net income expressed as a percentage of average assets



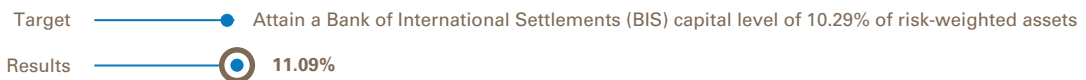
Return on average equity

Net income expressed as a percentage of average equity



Capital

Regulator defined and primarily retained earnings plus share equity divided by total assets adjusted for risk as defined by regulators



Non-interest expenses

All costs that are not interest related with the exception of provisions for credit losses and income taxes



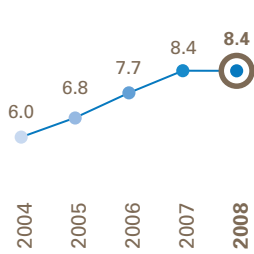
Operating efficiency

Coast Capital Savings' cost to earn \$1 and equals all non-interest expenses divided by the sum of net interest income and other income

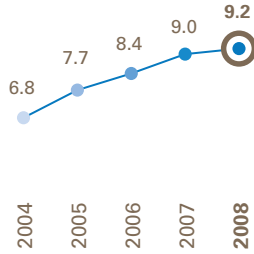


Financial Highlights at a Glance

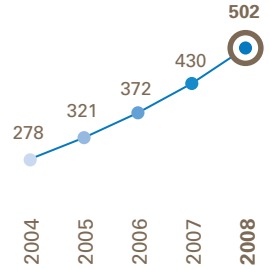
Total loans
Billions of dollars



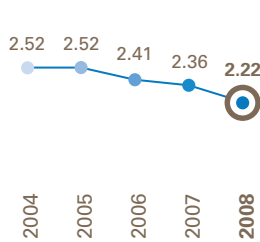
Total deposits
Billions of dollars



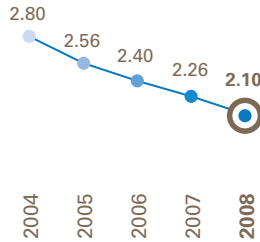
Members' equity
Millions of dollars



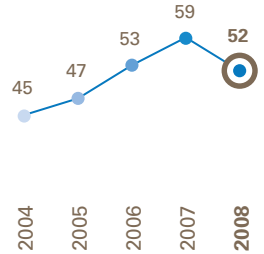
Net interest income
As a percentage of average assets



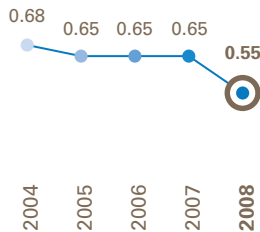
Non-interest expense
As a percentage of average assets



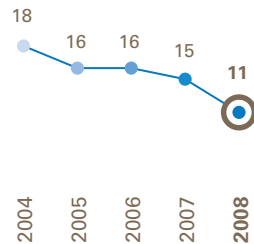
Net income
Millions of dollars



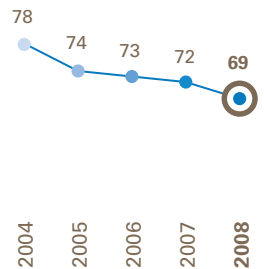
Net income
As a percentage of average assets



Net income
As a percentage of average equity



Operating efficiency
In percent



Financial Highlights – 5 Year Overview

| (in thousands of dollars) | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|---------------|--------------|--------------|--------------|--------------|
| Balance sheets: | | | | | |
| Assets | | | | | |
| Cash resources | \$ 1,109,784 | \$ 634,732 | \$ 686,997 | \$ 856,886 | \$ 581,342 |
| Investments | 833,204 | 685,312 | 442,896 | 466,582 | 530,391 |
| Loans | 8,364,176 | 8,443,534 | 7,650,758 | 6,788,866 | 6,002,210 |
| Premises and equipment | 38,791 | 37,521 | 41,124 | 44,027 | 37,682 |
| Other | 97,622 | 51,917 | 42,779 | 44,185 | 43,448 |
| | \$ 10,443,577 | \$ 9,853,016 | \$ 8,864,554 | \$ 8,200,546 | \$ 7,195,073 |
| Liabilities | | | | | |
| Deposits | | | | | |
| Demand | \$ 2,106,670 | \$ 1,860,717 | \$ 1,710,791 | \$ 1,637,178 | \$ 1,432,172 |
| Term | 5,665,519 | 5,680,453 | 5,162,604 | 4,615,949 | 3,819,782 |
| Registered | 1,372,710 | 1,353,407 | 1,378,544 | 1,409,925 | 1,458,409 |
| Class A shares | 1,870 | 1,763 | 1,660 | 1,557 | 1,651 |
| Accrued interest | 102,010 | 104,360 | 98,682 | 71,589 | 70,679 |
| | 9,248,779 | 9,000,700 | 8,352,281 | 7,736,198 | 6,782,693 |
| Borrowings | | | | | |
| Borrowings | 548,259 | 294,469 | – | – | – |
| Other | 80,712 | 63,599 | 76,353 | 70,558 | 61,140 |
| | 9,877,750 | 9,358,768 | 8,428,634 | 7,806,756 | 6,843,833 |
| Subordinated notes | | | | | |
| Subordinated notes | 25,000 | 25,000 | 25,000 | 33,500 | 33,500 |
| Class C shares | 38,669 | 38,879 | 39,133 | 39,159 | 39,280 |
| Members' equity | | | | | |
| Class B shares | 43,669 | 44,464 | 44,954 | 45,840 | 48,855 |
| Retained earnings | 434,385 | 383,343 | 326,833 | 275,291 | 229,605 |
| Accumulated other comprehensive income | 24,104 | 2,562 | – | – | – |
| | 502,158 | 430,369 | 371,787 | 321,131 | 278,460 |
| | \$ 10,443,577 | \$ 9,853,016 | \$ 8,864,554 | \$ 8,200,546 | \$ 7,195,073 |

Financial Highlights – 5 Year Overview

| (in thousands of dollars) | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---------------|---------------|---------------|--------------|--------------|
| Income statements: | | | | | |
| Interest income | \$ 504,855 | \$ 518,387 | \$ 447,644 | \$ 357,329 | \$ 334,511 |
| Interest expense | 293,627 | 305,987 | 250,446 | 175,406 | 167,811 |
| Net interest income | 211,228 | 212,400 | 197,198 | 181,923 | 166,700 |
| Provision for credit losses | 15,568 | 6,812 | 6,966 | 6,532 | 7,228 |
| | 195,660 | 205,588 | 190,232 | 175,391 | 159,472 |
| Other income | 76,599 | 70,145 | 70,366 | 66,349 | 68,964 |
| | 272,259 | 275,733 | 260,598 | 241,740 | 228,436 |
| Non-interest expenses | 199,931 | 203,951 | 196,642 | 184,744 | 184,989 |
| Income before undernoted | 72,328 | 71,782 | 63,956 | 56,996 | 43,447 |
| Unusual item | – | – | – | (983) | 12,290 |
| Income before taxes | 72,328 | 71,782 | 63,956 | 56,013 | 55,737 |
| Income taxes | 19,899 | 13,163 | 10,872 | 8,877 | 10,950 |
| Net income | \$ 52,429 | \$ 58,619 | \$ 53,084 | \$ 47,136 | \$ 44,787 |
| Financial statistics in percent: | | | | | |
| Asset growth | 5.99 | 11.15 | 8.10 | 13.97 | 12.05 |
| Loan growth | (0.94) | 10.36 | 12.70 | 13.11 | 6.21 |
| Deposit growth | 2.76 | 7.76 | 7.96 | 14.06 | 13.91 |
| Operating efficiency | 69.46 | 72.18 | 73.49 | 74.41 | 78.50 |
| Capital ratio | 11.09 | 10.39 | 10.26 | 10.80 | 11.12 |
| Liquidity ratio | 19.83 | 14.20 | 13.53 | 17.11 | 16.39 |
| Percentage of average assets | | | | | |
| Net interest income | 2.22 | 2.36 | 2.41 | 2.52 | 2.52 |
| Other income | 0.80 | 0.78 | 0.86 | 0.92 | 1.04 |
| Non-interest expenses | 2.10 | 2.26 | 2.40 | 2.56 | 2.80 |
| Percentage return on | | | | | |
| Average assets | 0.55 | 0.65 | 0.65 | 0.65 | 0.68 |
| Average equity | 11.39 | 14.86 | 15.52 | 15.72 | 17.68 |
| Branches | 51 | 49 | 49 | 47 | 44 |
| Insurance Offices | 36 | 35 | 35 | 33 | 26 |
| Average assets | \$ 9,516,198 | \$ 9,015,087 | \$ 8,192,880 | \$ 7,228,653 | \$ 6,606,497 |
| Average equity | 460,250 | 394,403 | 342,084 | 299,795 | 253,324 |
| Mutual funds under administration | 1,404,155 | 1,788,361 | 1,683,630 | 1,428,500 | 1,208,622 |
| Securitized loans | 494,687 | 205,847 | 293,772 | 59,141 | 109,861 |
| Total assets under administration | \$ 12,342,419 | \$ 11,847,224 | \$ 10,841,956 | \$ 9,688,186 | \$ 8,513,556 |
| Asset quality trends: | | | | | |
| Allowance for credit losses, beginning | \$ 42,516 | \$ 37,793 | \$ 32,815 | \$ 27,823 | \$ 23,303 |
| Provisions for credit losses | 15,568 | 6,812 | 6,966 | 6,532 | 7,228 |
| Loans written off | 5,129 | 3,312 | 2,618 | 2,744 | 3,144 |
| Recoveries of loans written off | 690 | 1,223 | 630 | 1,204 | 436 |
| Allowance for credit losses, end | 53,645 | 42,516 | 37,793 | 32,815 | 27,823 |
| Impaired loans | \$ 34,144 | \$ 13,938 | \$ 14,032 | \$ 9,403 | \$ 13,807 |

Message from the Board of Directors

Growth and Leadership

Our numbers tell the story. Since it was formed eight years ago, Coast Capital Savings has grown to \$12.3 billion in assets under administration and over 400,000 members. The success of our growth strategy is two-fold: working and aggregating with like-minded credit unions, and consistently paying close attention to the marketplace, identifying opportunities, and offering innovative, yet simple financial products that meet the needs of ordinary people.

In 2009, we will see a change in leadership at Coast Capital Savings with the retirement of our Chief Executive Officer, Lloyd Craig. In 2002, Lloyd rose to the challenge of integrating three highly successful credit unions into a single unified organization. The result is what many believe to be the most innovative and forward thinking financial institution in the country. On behalf of everyone at Coast Capital Savings, I thank Lloyd for his truly outstanding leadership and the remarkable work of his executive team.

Change and Regulation

One of the longest expansionary business cycles in memory came abruptly to an end in 2008. Dramatic events occurred suddenly as a result of the freeze up in the financial markets. In the United States and abroad, several large financial institutions were forced to merge or close their doors. For some it's been devastating. For others, including Coast Capital Savings, the financial crisis has had a lesser impact. We finished another strong year on all fronts and our regulatory capital – a key measure of financial strength – has passed both the 11% and the \$500 million mark, well in excess of regulatory requirements.

Canadians can be thankful that our financial system is strong, due in part to our regulatory environment. Here in British Columbia, the BC Financial Institutions

Commission (FICOM) is responsible for the regulation of our province's credit union system. Coast Capital Savings is well positioned for any economic uncertainties that may lie ahead. As well, consumer confidence was given a welcomed boost in 2008 with the provincial government's bold move of expressing its confidence in the BC credit union system by expanding the guarantee of our members' deposits. All money on deposit and money invested in non-equity shares with a BC credit union is 100% guaranteed, including foreign currencies and accrued interest, regardless of the length of the term to maturity.

Recognition and Appreciation

Coast Capital Savings has once again been recognized as one of Canada's 50 Best Managed Companies. This is considered one of the highest distinctions available to Canadian private enterprise. The award acknowledges the success Coast Capital Savings has achieved and maintained in areas such as developing a core vision and strategy, competitiveness in the marketplace, using technology, and employee recruitment, retention, and talent. Our employees truly make a difference at Coast Capital Savings and this award reflects their talent and commitment.

Year after year we continue to grow and deliver on our promise of providing simple financial help to our members and creating a great place to work for our employees. This growth also applies to our community involvement. In 2008, we provided over \$5 million in support to our communities.

On behalf of the Board of Directors, I would like to thank all our customers for their trust in Coast Capital Savings and our employees for the excellent work they do every day of the week – together we'll continue to grow.



Bill Wellburn
Chair, Board of Directors



Message from the President and Chief Executive Officer

Strong and Stable

Let's talk numbers. Coast Capital Savings' performance in 2008 was strong and stable. In a year where consumers witnessed financial institutions struggling to react to unprecedented financial and economic uncertainty, we continued to focus on our established strengths: banking, insurance, and investment services.

Our strategy and reputation as a conservative mortgage, personal, and business lender helped keep us financially sound and secure, as 75 percent of the funds we lend are from retail deposits, rather than from funding sourced in capital markets. Even with extraordinary factors – the Bank of Canada's 2.5 percent drop over the course of 2008, additional write-downs on our asset-backed commercial paper, and our increased provision for credit losses – Coast Capital Savings showed strong financial results in 2008.

Pre-tax earnings for 2008 were \$72.3 million, up from \$71.8 million in 2007. Net income was \$52.4 million, compared to \$58.6 million in 2007, while net income expressed as a return on average assets was 0.55%, compared to 0.65% in 2007. Expressed as a return on average equity, net income was 11.39%, compared to 14.86% the year before. However, assets grew to \$10.4 billion by year-end and members' equity increased from \$430.4 million to \$502.2 million, both all-time highs. Total assets under administration rose from \$11.8 billion to \$12.3 billion. Revenue growth, combined with a decrease in operating expenses, resulted in an improved operating efficiency of 69.5% in 2008, compared to 72.2% in 2007.

Growth and Change

The Free Chequing, Free Debit and More Account™ and *Big Perks for Small Business®* program remain popular, and helped drive membership growth to a record high. We attracted 24,000 new members in 2008, bringing our total membership to 404,000. Early

in 2009, we added two new products. *The High-interest, No-fee Savings Account™* and *The Low-fee, More-for-me Mutual Funds™* are providing what members have come to expect from us – innovative investment options.

With two new branches opened in 2008 and two branches relocated to better serve our members, we now have eight aperio®-style branches in Metro Vancouver. The aperio® concept offers a unique branch design and service approach – and improves members' banking experience.

We continue to support consolidation within the credit union industry, a direction that will help ensure credit unions remain a strong, secondary tier of financial institutions in Canada. In 2008, the B.C. and Ontario credit union Centrals merged to consolidate resources and lower costs. We believe that this progress will continue and is a positive step towards further consolidation of credit unions. We also advocate strengthening Canada's credit union system through new legislation allowing interested credit unions to operate outside their traditional provincial boundaries.

Innovation and People

We have one of the best operating efficiency ratios among Canadian credit unions. This, combined with our innovative and highly competitive products, positions us for continued growth in our business. We are committed to creating financial value for our members, supporting our communities, and providing career opportunities for our staff.

I thank the Board and all our employees for their leadership, dedication, and outstanding contributions in 2008. With a corporate culture based on innovation and change, and staff committed to delivering on our *How can we help you?®* brand promise each and every day, Coast Capital Savings is on track towards an even stronger future.



Lloyd Craig
President and Chief Executive Officer



Management's Discussion and Analysis

This section of the Annual Report contains details of the operations and financial condition of Coast Capital Savings Credit Union (CCS), as well as management's discussion of material risks inherent in its operations. A section providing a detailed analysis of CCS' capital structure is also included.

Introduction

We are Canada's second largest credit union providing financial services and products to consumers living in the Metro Vancouver and Vancouver Island regions of British Columbia. Our long-term goal is to provide a national alternative for consumers in the financial services marketplace.

We successfully compete with other financial service providers in our existing market area by providing an outstanding level of customer service and high product quality. Our focus is on attracting retail deposits from our members and using these deposits to largely fund residential mortgages. Our ability to compete successfully with other financial institutions has enabled us to grow without deviating from our conservative lending strategy.

Overview

Net income for 2008 was \$52.4 million, compared to \$58.6 million in 2007; return on average assets declined to 0.55% versus 0.65% in 2007. The primary reasons for the year-over-year decrease were due to an increase of \$8.8 million in the provision for credit losses and a write-down of \$8.3 million on our \$20 million asset-backed commercial paper (ABCP). These extraordinary items were partially off-set by gains in Other income.

Assets grew by 6.0% to \$10.5 billion in 2008, up from \$9.9 billion in 2007. Total loans remained flat at \$8.4 billion versus 2007. Prior to 2008 mortgage securitizations of \$0.4 billion, loan growth was 2.4%. While CCS' securitized mortgages grew to \$0.5 billion, mutual fund assets under administration decreased by \$0.4 billion to \$1.4 billion, bringing total assets under administration to \$12.3 billion versus \$11.8 billion in 2007.

Members' equity was \$502.2 million, up \$71.8 million from the prior year, primarily due to Net income and Other comprehensive income generated in 2008.

Total deposits stood at \$9.2 billion, an increase of 2.8% from \$9.0 billion in 2007.

Financial Performance

Net Interest Income

Interest income is our major source of revenue. In 2008, interest income totalling \$504.9 million was earned from borrowers on their loans and from cash resources. Interest expense, which represents amounts paid by us on members' deposits and corporate borrowings, totalled \$293.6 million. Net interest income represents the difference between interest income and interest expense. Net interest income for 2008 was \$211.2 million, compared to \$212.4 million in 2007. Net interest income, as a percentage of average assets was 2.22% for 2008, compared to 2.36% in 2007. The reason for this decline was primarily due to two factors. The first was the impact from the Bank of Canada's decision to lower its key rate, resulting in our prime lending rate declining by 2.50% in 2008. This had a greater negative impact on our interest income than it had a positive impact on our interest expense. The other cause was the result of the lost spread from the securitization of \$0.4 billion in residential mortgages into the Canada Mortgage Bond (CMB) program. However, while the securitization had a negative impact on CCS' Net interest income, the gain created by the sale had a greater positive impact on Other income.

Management's Discussion and Analysis

Analysis of Net Interest Income

Year ended December 31

| in thousands of dollars | 2008 | | | | 2007 | | | |
|-----------------------------|-----------------|-------|------------|-----------------|-----------------|-------|------------|-----------------|
| | Average balance | Mix % | Interest | Interest rate % | Average balance | Mix % | Interest | Interest rate % |
| Cash resources | \$ 965,591 | 10.1 | \$ 28,396 | 2.94 | \$ 841,686 | 9.3 | \$ 32,267 | 3.83 |
| Loans: | | | | | | | | |
| Residential | 5,596,778 | 58.8 | 292,729 | 5.23 | 5,472,581 | 60.7 | 305,002 | 5.57 |
| Commercial | 2,422,022 | 25.5 | 153,181 | 6.32 | 2,144,563 | 23.8 | 141,969 | 6.62 |
| Personal | 209,397 | 2.2 | 13,300 | 6.35 | 260,861 | 2.9 | 20,735 | 7.95 |
| Lines of credit | 209,484 | 2.2 | 17,249 | 8.23 | 203,348 | 2.3 | 18,414 | 9.06 |
| Total loans | \$ 8,437,681 | 88.7 | \$ 476,459 | 5.65 | \$ 8,081,353 | 89.7 | \$ 486,120 | 6.02 |
| Other assets | 112,926 | 1.2 | – | – | 92,048 | 1.0 | – | – |
| Total | \$ 9,516,198 | 100.0 | \$ 504,855 | 5.31 | \$ 9,015,087 | 100.0 | \$ 518,387 | 5.75 |
| Deposits: | | | | | | | | |
| Demand | 1,976,852 | 20.8 | 17,285 | 0.87 | 1,784,755 | 19.8 | 18,241 | 1.02 |
| Term | 5,008,106 | 52.5 | 202,915 | 4.05 | 4,630,501 | 51.3 | 203,151 | 4.39 |
| RRSP | 1,369,151 | 14.4 | 55,122 | 4.03 | 1,369,151 | 15.2 | 53,214 | 3.89 |
| Total deposits | \$ 8,354,109 | 87.7 | \$ 275,322 | 3.30 | \$ 7,784,407 | 86.3 | \$ 274,606 | 3.53 |
| Borrowings | 363,327 | 3.8 | 14,684 | 4.04 | 558,360 | 6.2 | 27,530 | 4.93 |
| Subordinated note | 25,000 | 0.3 | 1,288 | 5.15 | 25,000 | 0.3 | 1,512 | 6.05 |
| Class C shares | 38,770 | 0.4 | 2,333 | 6.00 | 38,985 | 0.4 | 2,339 | 6.00 |
| Total financial liabilities | \$ 8,781,206 | 92.2 | \$ 293,627 | 3.34 | \$ 8,406,752 | 93.2 | \$ 305,987 | 3.64 |
| Other liabilities | 274,742 | 2.9 | – | – | 213,932 | 2.4 | – | – |
| Class B shares | 43,151 | 0.5 | – | – | 43,593 | 0.5 | – | – |
| Retained earnings | 417,099 | 4.4 | – | – | 350,810 | 3.9 | – | – |
| Total | \$ 9,516,198 | 100.0 | \$ 293,627 | 3.09 | \$ 9,015,087 | 100.0 | \$ 305,987 | 3.39 |
| Net interest income | | | \$ 211,228 | 2.22 | | | \$ 212,400 | 2.36 |

Other Income

Other income is income that is not interest related. This includes items such as insurance and mutual fund commissions, securitization revenues, foreign exchange income, and charges for banking services. We price our products and services to provide excellent customer value and fair returns while maintaining market competitiveness.

Other income in 2008 was \$76.6 million, compared to \$70.1 million in 2007. Other income as a percentage of average assets was 0.80% in 2008, compared to 0.78% in 2007. There were two unusual items impacting Other income in 2008. An additional write-down of \$8.3 million was taken against a \$20 million investment in the ABCP that CCS holds, versus a \$2.4 million write-down taken in 2007. The cumulative write-down on this investment now totals \$10.7 million, or 54% of the original investment. This investment was part of the restructured Montreal Accord settlement. On the positive side, we incurred a \$13.0 million gain from CCS' securitization activity from the sale of mortgages and from an increase in the fair value of CCS' retained interests in the existing securitized mortgage portfolio. In 2007, we incurred a loss of \$0.8 million because there were no mortgage sales and the fair value of the existing securitized mortgage portfolio decreased as wholesale interest rates increased in 2007 as a result of the global financial crisis. Without the ABCP write-down and the securitization gains, Other income as a percentage of average assets would have been 0.75% in 2008.

Management's Discussion and Analysis

Other significant changes in Other income included: a \$5.3 million decline in mutual fund commissions (also as a result of the global financial turmoil's effect on the markets generally), partially offset by a \$1.9 million increase in Other income sources.

Non-interest Expenses

Non-interest expenses represent all costs that are not interest related, excluding provisions for credit losses and income taxes. It includes staff salaries and benefits, occupancy, data processing, marketing, deposit insurance assessments, Central 1 Credit Union (Central 1) dues, provincial capital taxes, and other costs. We continue to strive to contain and manage our costs as effectively as possible.

Total Non-interest expenses in 2008 decreased by 1.7% to \$199.9 million, compared to \$204.0 million in 2007. Non-interest expenses as a percentage of average assets were 2.10% in 2008, compared to 2.26% in 2007. This is down substantially from the 2.80% achieved in 2004. Employee costs, including salaries, benefits, and incentive compensation, were \$110.6 million in 2008, compared to \$114.1 million in 2007, a decrease of 3.1%, largely the result of a decrease in incentive payments. The incentive program is reviewed by the Board of Directors on a regular basis to ensure its alignment with corporate strategy and is revised to reflect prevailing economic conditions.

Capital Expenditures/Premises and Equipment

Total capital expenditures in 2008 were \$9.9 million, compared to \$7.6 million in 2007.

Year ended December 31

in thousands of dollars

| | 2008 | 2007 |
|--------------------------------------|----------|----------|
| Building renovation and improvements | \$ 23 | \$ 489 |
| Leasehold improvements | 4,207 | 2,354 |
| Computer equipment/software | 3,988 | 3,496 |
| Furniture and equipment | 1,699 | 1,228 |
| Total | \$ 9,917 | \$ 7,567 |

We are forecasting increased capital expenditures in 2009, largely due to branch renovations and various banking system/software upgrades.

Loans

Total loans remained flat at \$8.4 billion in 2008. Prior to mortgage securitizations of \$0.4 billion, loan growth was 2.4%.

We aggressively compete for, and are a major holder of, residential first mortgages in the Metro Vancouver and Vancouver Island regions of British Columbia. We provide mortgages to individuals according to conventional mortgage-lending standards for residential properties. We offer closed, open variable, and fixed-rate mortgages, written with terms of 6 months to 10 years.

As at December 31, 2008, residential mortgage loans totalled \$5.5 billion, representing 65.4% of total loans outstanding, compared to \$5.7 billion or 67.8% of total loans as at December 31, 2007. The decline was largely due to the securitization of conventional mortgages totalling \$0.4 billion. Without the securitization, the residential mortgage loans would have represented 66.6% of total loans outstanding.

Personal loans to members include instalment loans, demand loans, retail leases, and lines of credit. We also offer a suite of credit cards. Based on the contractual agreement with the credit card supplier, we do not carry the balances owing from the credit card holders but earn a fee based on the total net purchases generated by the credit card holders, as well as a per-card fee.

At December 31, 2008, personal loans remained flat at \$0.4 billion representing 4.5% of total loans outstanding, compared to 4.9% of total loans as at December 31, 2007. Customers continue to move away from unsecured or chattel-secured personal borrowing and are instead accessing home equity loans which offer lower interest rates but also lower credit risk.

Management's Discussion and Analysis

Commercial lending consists primarily of first mortgage loans to medium-sized businesses for real estate projects. The types of mortgages offered are similar to residential mortgages, except the maximum term is largely limited to five years. Although we also conduct other forms of commercial lending, including small business lending and commercial leases, these constitute a small but growing portion of the commercial loan portfolio.

At December 31, 2008, commercial loans totalled \$2.5 billion, representing 30.1% of total loans outstanding (24.2% of total assets), compared with \$2.3 billion, representing 27.3% of total loans as at December 31, 2007 (23.4% of total assets).

We maintain conservative lending policies and hold no loans denominated in foreign currency. Our present policy limits commercial lending to a maximum of \$3.2 billion, in line with our goal of holding 30% of total assets in commercial loans, the regulatory maximum. The maximum single loan exposure to any one borrower is limited to \$20.0 million, while our maximum exposure to any one connection is limited to \$50.0 million on real estate loans. Other types of loans have substantially lower limits. We have no loans outstanding which exceed our internal limits. These limits are being strictly and conservatively applied in an effort to manage the economic risk in CCS' market area. Our investment and lending policy is regularly reviewed by our Investment and Lending Committee, approved by our Board, and filed with the Superintendent of Financial Institutions of British Columbia.

Loan Portfolio

| As at December 31 | 2008 | | | | 2007 | | | |
|--|---------|---|---------------|---------------------------------------|---------|---|---------------|---------------------------------------|
| | Number | Total in millions of dollars ¹ | In percent | Average in thousands of dollars | Number | Total in millions of dollars ¹ | In percent | Average in thousands of dollars |
| Individuals: | | | | | | | | |
| <i>Mortgages:</i> | | | | | | | | |
| Conventional ² | 18,322 | \$ 2,691 | 32.0 | \$ 147 | 20,335 | \$ 2,893 | 34.2 | \$ 142 |
| Revenue | 2,346 | 510 | 6.1 | 218 | 2,472 | 521 | 6.2 | 211 |
| Progressive | 255 | 60 | 0.7 | 237 | 358 | 84 | 1.0 | 234 |
| Insured | 3,412 | 720 | 8.6 | 211 | 3,739 | 738 | 8.7 | 197 |
| High-ratio | 1,529 | 486 | 5.8 | 318 | 2,106 | 635 | 7.5 | 301 |
| Mortgage secured lines of credit | 15,659 | 1,023 | 12.2 | 65 | 14,601 | 860 | 10.2 | 59 |
| Subtotal mortgages | 41,523 | 5,490 | 65.4 | 132 | 43,611 | 5,731 | 67.8 | 131 |
| <i>Other:</i> | | | | | | | | |
| Retail leasing | 507 | 5 | 0.1 | 10 | 939 | 12 | 0.1 | 13 |
| Other lines of credit | 138,998 | 202 | 2.4 | 1 | 136,041 | 196 | 2.2 | 1 |
| Personal loans | 15,348 | 171 | 2.0 | 11 | 19,283 | 217 | 2.6 | 11 |
| Subtotal other | 154,853 | 378 | 4.5 | 2 | 156,263 | 425 | 4.9 | 3 |
| Subtotal individuals | 196,376 | 5,868 | 69.9 | 30 | 199,874 | 6,156 | 72.7 | 31 |
| Commercial: | | | | | | | | |
| Commercial loans | 12,129 | 2,347 | 27.9 | 193 | 9,599 | 2,147 | 25.4 | 223 |
| Commercial leasing | 2,819 | 181 | 2.2 | 64 | 2,790 | 158 | 1.9 | 57 |
| Subtotal commercial | 14,948 | 2,528 | 30.1 | 169 | 12,389 | 2,305 | 27.3 | 186 |
| Subtotal individuals and commercial | 211,324 | 8,396 | 100.0 | 40 | 212,263 | 8,461 | 100.0 | 40 |
| Accrued interest | | 22 | | | | 25 | | |
| Total loan portfolio | 211,324 | \$ 8,420 | 100.0 | \$ 40 | 212,263 | \$ 8,486 | 100.0 | \$ 40 |

1 Before allowance for credit losses.

2 In 2008, 1,571 (\$396.7 million) conventional mortgages were securitized and are not included.

Management's Discussion and Analysis

Allowance for Credit Losses

We have an established policy of providing general and specific allowances to cover credit losses. We review our loan portfolio on an ongoing basis and will establish a specific allowance if we identify potential credit losses. Our overall credit quality remains acceptable. However, given the elevated global uncertainties and slower economic growth, we have increased our provision for credit losses to \$15.6 million, compared to \$6.8 million in 2007. The total allowance for credit losses increased to \$53.6 million or 0.64% of total loans as at December 31, 2008, compared to \$42.5 million, or 0.50% as at December 31, 2007.

Asset Quality Coverage

As at December 31

| in thousands of dollars | 2008 | 2007 |
|---|--------------|--------------|
| Total loans | \$ 8,364,176 | \$ 8,443,534 |
| Provision for credit losses | 15,568 | 6,812 |
| Loan write-offs | 5,129 | 3,312 |
| Total allowance for credit losses | 53,645 | 42,516 |
| Impaired loans | 34,144 | 13,938 |
| Members' equity | 502,158 | 430,369 |
| in percent | | |
| Provision for credit losses as % of total loans | 0.19 | 0.08 |
| Loan write-offs as % of total loans | 0.06 | 0.04 |
| Impaired as % of total loans | 0.41 | 0.17 |
| Impaired as % of members' equity | 6.80 | 3.24 |
| Total allowance as % of impaired loans | 157.12 | 305.04 |
| Total allowance as % of total loans | 0.64 | 0.50 |

The level of impaired loans stood at \$34.1 million as at December 31, 2008, versus \$13.9 million as at December 31, 2007, reflecting the ongoing challenges in the real estate markets and declining consumer confidence. We classify a loan as impaired if, in the opinion of management, we have reasonable doubt as to its ultimate collectibility, either in whole or in part, of principal or interest. Loans where interest or principal is contractually past due 90 days are automatically classified as impaired, unless management determines there is no reasonable doubt as to its ultimate collectibility of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provisions or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal.

Deposits

On October 22, 2008, BC Premier Gordon Campbell announced that the Province intended to increase the deposit insurance coverage for BC's credit unions from \$100,000 to unlimited coverage. Subsequently, on November 27, 2008, the Provincial legislature passed amendments to the *Financial Institutions Act*. Now, all money on deposit and money invested in non-equity shares with a BC credit union is 100% guaranteed, including foreign currencies and accrued interest, regardless of the length of the term to maturity. This change, added to an already very successful Haggie-free[®] term deposit pricing concept, where all our retail customers are assured that they receive our best rate without having to negotiate, resulted in CCS experiencing its best year ever for retail deposit growth. Retail deposits grew by \$596.2 million in 2008, compared to \$347.4 million in 2007.

Total deposits as at December 31, 2008 were \$9.2 billion, compared with \$9.0 billion for the previous year, an increase of 2.8%. Agency and institutional deposits accounted for \$3.2 billion or 31.4% of total deposits as at year-end, compared to \$3.2 billion or 36.1% in 2007. We continue to explore other deposit initiatives designed to diversify our funding sources and develop new relationships to help further boost our overall deposit growth.

We offer a full range of personal deposit services and products, including chequing accounts, savings accounts, and term deposits. All deposit accounts are in Canadian funds, with the exception of a special US dollar chequing account and US dollar short-term deposits. We actively participate in registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), and registered education savings plans (RESPs) markets offering various products, and have just introduced a complete line of tax-free savings account (TFSA) deposit products.

Management's Discussion and Analysis

As at December 31, 2008, demand deposits represented 22.8% of total deposits, compared with 20.7% in the previous year. Term deposits represented 61.3%, compared with 63.1% in 2007. Although registered term deposits declined again this year on a percentage basis, representing 14.9% of total deposits, compared with 15.0% in 2007, historically weak equity markets saw the dollar value of these deposits increase for the first time in many years.

Borrowings

We maintain a loan facility with Central 1, and with the Caisse Centrale Desjardins. Outstanding amounts under both of these facilities fluctuate in the normal course of business throughout the year. Through the Caisse Centrale Desjardins facility, we are able to borrow up to \$175 million. The primary Central 1 facility allows us to borrow up to 10% of our total assets, which based on the year-end results would amount to \$1.0 billion and under special circumstances up to 15% on a short-term basis. We had total borrowings outstanding as at December 31, 2008 of \$548.3 million, up from \$294.5 million the previous year. Average borrowings throughout the year were \$346.7 million, compared to \$558.4 million over 2007.

Risk Management

(Certain information within this section, where indicated, forms an integral part of the audited financial statements.)

Overview

We recognize there are significant risks inherent in our business activities and are committed to the effective and efficient management of these risks. Our overall goal is to produce consistent and optimal long-term earnings growth. In 2006, we embarked on a strategy to employ an Enterprise Risk Management (ERM) framework as a governance and management tool to provide effective oversight and risk management of the credit union. The purpose of ERM is to enhance value and preserve long-term and sound business and financial operations.

In order to enhance the visibility, management, and effectiveness of our risk-management program, we recently created the position of Chief Risk Officer (CRO). The CRO reports directly to the Chief Executive Officer (CEO). The CRO's role is to help ensure we continue to balance healthy growth with a robust control environment. This includes implementing effective risk-management policies and processes, managing the increased regulatory environment facing the financial services industry, as well as enhancing the awareness of the risk-management role and responsibilities within our organization in order to maintain a stable and strong company to benefit our members, staff, and communities.

Our ERM Program is a dynamic and flexible process that enables us to adapt and shift as required to the changes and opportunities in the market and within our organization. We have a robust approach which allows us to look across all business areas to identify, assess, mitigate, monitor, and report on potential risks. While we realize that these risks cannot be fully eliminated, proactive management of these risks within acceptable levels is our primary goal.

We actively monitor and manage the following principal risks that are most likely to affect us: credit risk; market risk; liquidity, investment, and funding management risk; operational risk; compliance risk; fiduciary risk; and reputation risk.

Credit Risk

(Information that is an integral part of the audited financial statements.)

The risk that the default of a debtor exposes us to an actual loss or opportunity cost impacting its ability to achieve its business objectives.

Credit risk is principally lending activity related. Our system for controlling the risk of borrowers defaulting on loan obligations is based upon strict adherence to clearly defined credit policies and credit approval procedures, as developed and maintained by the Chief Credit Officer (CCO). The Board of Directors delegates authority for loan approval to the CEO who in turn assigns this responsibility to the CCO. The CCO grants specified limits to officers, with the guidelines reviewed annually by the Board of Directors. Loan approval limits are established based upon the experience and qualifications of the individuals involved. If a proposed loan is beyond the lending limit prescribed for branch management, it is forwarded to the Senior Manager, Retail Credit, or to the CCO, depending on the size of the loan. If a loan is beyond the internal lending limit prescribed for the CCO, it is then submitted to one of three credit committees: retail management credit; senior credit; or executive credit for final approval. We review lending practices and activities on a regular basis to ensure adherence to policy guidelines and general credit quality. Loans requiring collection are removed from the branch level and dealt with centrally.

Management's Discussion and Analysis

Maximum exposure to credit risk – The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognized on the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

Maximum Exposure to Credit Risk

As at December 31, 2008

| in thousands of dollars | Banking | Derivatives |
|---------------------------------|---------------|-------------|
| On balance sheet | | |
| Cash held at Central 1 | \$ 76,854 | |
| Investments held at Central 1 | 1,042,747 | |
| Shares in Central 1 | 26,854 | |
| Other investments | 796,854 | |
| Loans | 8,364,176 | |
| Derivative instruments | | \$ 34,911 |
| Accounts receivable | 6,919 | |
| | 10,314,404 | 34,911 |
| Off balance sheet | | |
| Letters of credit | 52,176 | |
| Commitments to extend credit | 2,263,683 | |
| | 2,315,859 | – |
| Maximum exposure to credit risk | \$ 12,630,263 | \$ 34,911 |

Concentration risk – Concentration risk arises if a number of borrowers are engaged in similar economic activities and/or are located in the same geographic region. CCS primarily carries out its lending activities in the Metro Vancouver and Vancouver Island regions in British Columbia. The following table breaks down CCS' lending activity by loan type and industry.

Concentration Risk

As at December 31, 2008

| in thousands of dollars | Outstanding | Undrawn commitments | Other ² | Derivatives | Total exposure |
|------------------------------------|--------------|---------------------|--------------------|-------------|----------------|
| Residential mortgages ¹ | \$ 5,984,324 | \$ 876,398 | | | \$ 6,860,722 |
| Personal loans | 378,743 | 713,752 | | | 1,092,495 |
| Commercial | | | | | |
| Construction ² | 774,556 | 304,497 | \$ 52,176 | | 1,131,229 |
| Food services & accommodation | 134,128 | 34,722 | | | 168,850 |
| Health care & social assistance | 164,683 | 33,983 | | | 198,667 |
| Management of companies | 91,892 | 15,714 | | | 107,606 |
| Manufacturing | 35,580 | 19,452 | | | 55,032 |
| Professional | 24,446 | 33,405 | | | 57,850 |
| Real estate | 997,896 | 145,639 | | | 1,143,535 |
| Retail trade | 43,177 | 22,905 | | | 66,082 |
| Transportation | 183,108 | 4,984 | | | 188,092 |
| Wholesale trade | 19,637 | 12,006 | | | 31,643 |
| Other | 81,227 | 46,225 | | | 127,452 |
| | \$ 8,913,397 | \$ 2,263,682 | \$ 52,176 | – | \$ 11,229,255 |

¹ Residential mortgages includes securitized mortgages.

² Other category refers to letters of credit.

Management's Discussion and Analysis

Market risk

(Information that is an integral part of the audited financial statements.)

The risk that interest rate fluctuations and volatile foreign exchange markets impact CCS' profitability, capital, and ability to achieve business objectives.

Market risk is primarily incurred in the fundamental banking activities of lending and deposit gathering. Reporting to the Chief Financial Officer, the Vice President, Treasury, is responsible for preparing, executing, and monitoring risk strategies in this area.

Interest rate risk – A large proportion of our assets are in the form of residential first mortgages, and like any other financial institution, our annual profitability depends to a certain extent on the ability to manage the maturities and yields of these assets against the maturities and costs of the liabilities funding them. We closely manage our interest rate risk through various strategies designed to optimize the return of differences between deposit and loan rates for different maturities.

Our asset and liability management committee (ALCO), comprised of the Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; Chief Credit Officer; Chief Innovation Officer; Vice President, Treasury; and various other executives, meets regularly to review and monitor asset- and liability-related activities and initiate changes when necessary.

The differentials between assets and liabilities for different maturities change on an ongoing basis and to some extent are dependent on the interest rate expectations held by the mortgage, loan, and deposit members. As previously noted, this information is monitored by management on a regular basis to ensure early identification of any developing trends, including the widening of any differentials that require modification. Through computer modelling techniques, we determine our interest rate risk on a monthly basis. The modelling determines the effect that rising or falling interest rates would have on Net interest income and market value over the next 12 months. Several methods are deployed when interest rate risk levels start to approach maximum policy guidelines. The largest differentials causing the interest rate risk can be reduced through conventional means, such as deposit campaigns and mortgage securitizations. If these conventional means fail, then we can decrease the differentials through so-called synthetic means by using derivative instruments such as interest rate swaps. As at year-end, we held \$1.3 billion in such instruments for interest rate risk management purposes, compared to \$0.8 billion as at December 31, 2007.

Asset and Liability Maturities

As at December 31

in thousands of dollars

| | 2008 | | | 2007 | | |
|---|---------------|------------------------|--------------|--------------|------------------------|--------------|
| | Assets | Liabilities/ equity | Differential | Assets | Liabilities/ equity | Differential |
| Variable rate | \$ 3,771,801 | \$ 2,157,872 | \$ 1,613,929 | \$ 3,091,506 | \$ 1,697,071 | \$ 1,394,435 |
| Interest sensitive | | | | | | |
| Maturing within | | | | | | |
| 1 year | 2,421,173 | 4,812,162 | (2,390,989) | 2,101,031 | 5,040,881 | (2,939,850) |
| Maturing between | | | | | | |
| 1-2 years | 887,892 | 1,179,169 | (291,277) | 826,454 | 616,489 | 209,965 |
| 2-3 years | 994,687 | 475,758 | 518,929 | 915,603 | 895,420 | 20,183 |
| 3-4 years | 1,203,024 | 230,948 | 972,076 | 1,005,155 | 192,755 | 812,400 |
| 4-5 years | 956,207 | 358,990 | 597,217 | 1,767,437 | 274,330 | 1,493,107 |
| Non-interest bearing items ¹ | 208,793 | 1,228,678 | (1,019,885) | 145,830 | 1,136,070 | (990,240) |
| | \$ 10,443,577 | \$ 10,443,577 | \$ – | \$ 9,853,016 | \$ 9,853,016 | \$ – |

¹ Assets include cash, accrued interest receivable, premises and equipment, and other items. Liabilities/equity include accrued interest payable, retained earnings, Class B shares, and other items.

Management's Discussion and Analysis

We continue to be asset sensitive. In fact, our asset sensitivity increased over 2008, as customers favoured variable rate mortgage products versus fixed rate, and have tended to go into one-year term deposit products. Falling interest rates in 2009 will have a negative impact on our Net interest income; as a large portion of our assets are variable and able to reprice lower while many of our liabilities either have longer-dated maturities that are unable to immediately reprice lower, or are already at such low interest rates that they no longer have the ability to reprice lower.

The following table shows the expected change to income before provision for taxes as a result of an immediate change to interest rates. These measures are based on a number of assumptions and consider the professional judgement of senior financial staff. Interest rate scenarios are based on outstanding asset and liability balances as at December 31.

Impact on Net Interest Income:

| in thousands of dollars | 2008 | 2007 |
|-------------------------|-------------|------------|
| 1% increase in rates | \$ 9,689 | \$ 2,681 |
| 1% decrease in rates | \$ (10,936) | \$ (5,257) |

Most financial institutions tend to deem a prudent level of asset/liability mismatching to be necessary in order to optimize profitability. The challenge is to find the level of mismatch that will maximize Net interest income while maintaining an acceptable level of risk.

Foreign exchange risk – Any assets or liabilities denominated in foreign currencies have foreign exchange risk. All of our foreign exchange risk comes from US dollar (USD) transactions. The risk occurs through our offering USD chequing and USD term deposits to our members. We mitigate this risk by investing these USD deposits into USD denominated investments. Our investment policy stipulates the maximum difference permitted between these USD deposits and USD investments. By limiting the difference, CCS protects itself against rapid changes in USD exchange rates.

Liquidity, Investment, and Funding Management Risk

(Information that is an integral part of the audited financial statements.)

The risk that insufficient acquisition or inappropriate management of funds threatens CCS' capacity to grow. The exposure to loss as a result of the inability to satisfy cash flow obligations in a timely and cost-effective manner, or a poor investment, results in a loss impacting CCS' ability to achieve its business objectives.

The *Financial Institutions Act* of British Columbia (FIA) requires us to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio comprised of investments with maturities ranging from overnight to five years. As part of this regulation, we are required to hold statutory liquidity with Central 1 equalling 1.5% of the British Columbia credit union system's assets, which presently amounts to approximately 7.0% of deposits and borrowings. These deposits provide yields similar to those of Government of Canada T-bills or bonds. In addition to the liquidity portfolio held at Central 1, we hold other liquidity investments outside of Central 1. Our investment policy specifies the minimum rating and certain single investment exposures for these investments. In general, funds placed outside of Central 1 are invested in financial instruments that are rated R-1 low (A-) or higher.

Our intention is to maintain a total liquidity portfolio at or above 9.0% of total deposits and borrowings. This level provides us with an operating cushion in the event of rapid asset growth or sudden deposit declines and still allows us to meet our regulatory requirements. Our Treasury Department monitors liquidity levels on a daily basis.

Maintaining liquidity levels and funding loan growth is managed through a number of different avenues. These include the growth of our core retail deposits through the introduction of new retail deposit products, continuing to promote existing retail deposit products, seeking deposits through an established network of deposit agents, and fostering institutional relationships to attract wholesale deposits. We also have in place several borrowing lines, including the one with Central 1, with the ability to borrow as much as \$1.5 billion. We can also free-up funding by securitizing mortgages through the Canada Mortgage Bond (CMB) program.

Operational Risk

The risk that inadequate or faulty activities in regards to outsourcing (extended enterprise), personnel, internal processes, financial reporting, or information technology could result in a loss or missed opportunity that prevents the achievement of strategic objectives.

Management's Discussion and Analysis

Operational risk is incurred as a result of general day-to-day activities throughout the credit union. As such, operational risk covers a broad range of events, all of which can impact our efficiency, our reputation and brand, and/or our monetary (financial) performance. We manage our operational risk through various policies and procedures that affect different aspects of outsourcing, personnel, internal processes, financial reporting, and information technology. These policies and procedures help protect the integrity and security of these activities and allow us to minimize any adverse impacts to our stakeholders.

Outsourcing – Over the years, we have built solid partnerships with other organizations that make sound business sense. Our primary objective in this area is to make these functions seamless to our stakeholders.

Personnel – We invest in our people and endeavour to have those with the right skills in the right job at the right time. This enables the development of strong leaders and loyal employees, while providing a safe workplace, and will help us grow and maintain a healthy corporate outlook.

Internal Processes – We look to create and implement processes that assist in increasing efficiencies. This helps us to use our resources more effectively and contain our costs without sacrificing those resources.

Financial Reporting – We make certain our accounting procedures are current and appropriate to the circumstances and conditions of the item being accounted. Integrity in our financial reporting is essential to instilling confidence in our members, employees, and communities, while maintaining a sound financial position.

Information Technology – We invest wisely in technology and ensure we consider our options in determining the appropriate applications for our stakeholders. Our main goals in this area are to provide the appropriate access, support, and security to our systems.

Compliance Risk

The risk that a flaw in design or operation, human error, oversight, or indifference, results in CCS not conforming to regulatory requirements or internal guidelines, impacting its ability to achieve its business objectives. We are required to meet various regulatory obligations. These include but are not limited to the Financial Institutions Commission (FICOM), the *Proceeds of Crime (Money Laundering) Terrorist Financing Act*, and the *British Columbia Personal Information Protection Act*. This risk also includes non-compliance by our employees as it pertains to the many statutes and regulations as set out by other governing bodies, including those associated with the investment services provided to our members.

Fiduciary Risk

The risk of providing improper investment advice and other advisory services (e.g. Financial Planning), the improper sale of mutual funds, brokerage activities, trust and estate administration, agency activities, mutual or investment funds management, and custodial arrangements.

Fiduciary risk relates to the requirement to conduct activities in a manner consistent with the member's stated objectives and to place the interests of that member above those of the credit union and requires an understanding of the member/client relationship. Fiduciary risk is incurred when providing advisory services and the safekeeping of member assets. We ensure that sales staff have the appropriate licensing in place.

Reputation Risk

The risk that CCS' reputation is damaged, exposing it to a loss of customers, profits, and the ability to compete and achieve its business objectives. CCS earns its reputation by providing quality products, outstanding service, and helpful interactions with its stakeholders. Reputation risk is one of the most significant risks that we face and is considered extremely important and integral to the business. Reputation is an institution's greatest asset, and in a financial institution, reputation and brand value is essential in maintaining the continued confidence of our stakeholders.

Management's Discussion and Analysis

Capital Management

Our capital requirements are regulated by FICOM using the risk-weighted approach developed by the Bank for International Settlements (BIS). FICOM established a minimum capital standard based on a ratio of capital to risk-weighted assets of 8.0%. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1, comprised of share capital and retained earnings, less intangible assets, and future income taxes.

Secondary capital, known as Tier 2, includes subordinated notes, share capital, and 50% of a credit union's portion of retained earnings in the Credit Union Deposit Insurance Corporation (CUDIC), Central 1, and Stabilization Central Credit Union (Stab Central). A credit union's assets are weighted according to six categories of relative risk ranging from 0% to 200%. Residential mortgages, the largest portion of our assets, are risk-weighted at 35%, while commercial loans, the second largest portion, are risk-weighted at 100%.

We monitor our capital levels on a regular basis. Our capital plan is updated annually and provides a forecast of capital requirements over a five-year horizon. As at December 31, 2008, our total capital ratio was 11.09%, compared to 10.39% in 2007. We are committed to a strong capital position, with a policy of maintaining our capital ratio above 9.0% of risk-weighted assets. As a result of the strong earnings performance in 2008, primary capital (Tier 1) now comprises 85% of total capital, up from 82% last year. The following tables show the levels of our capital and our risk-weighted assets under the BIS requirements:

Tier 1 and 2 Capital

As at December 31

in thousands of dollars

| | 2008 | 2007 |
|--|-------------------|-------------------|
| <i>Tier 1 capital</i> | | |
| Class A shares | \$ 1,870 | \$ 1,763 |
| Class B shares | 43,669 | 44,473 |
| Retained earnings | 434,385 | 383,343 |
| Future income taxes | (19,289) | (15,768) |
| | 460,635 | 413,811 |
| Less: Capital deductions | (10,040) | (11,020) |
| | 450,595 | 402,791 |
| <i>Tier 2 capital</i> | | |
| Subordinated notes | 25,000 | 25,000 |
| Portion of equity in Central 1, CUDIC, and Stab Central ¹ | 56,255 | 53,124 |
| Class C shares ² | – | 7,431 |
| | 81,255 | 85,555 |
| Total capital | \$ 531,850 | \$ 488,346 |

1 Portion of system related equity x 50%.

2 Net amount deemed as capital.

Management's Discussion and Analysis

Risk-Weighted Assets

As at December 31

| in thousands of dollars | 2008 | 2007 | 2008 | 2007 |
|--|----------------------|----------------------|---------------------|-----------------------|
| | Balance sheet amount | Balance sheet amount | BIS risk-weight (%) | Risk-weighted balance |
| Cash resources | 1,887,497 | 1,217,933 | 0 | – |
| Commercial paper | 55,492 | 110,325 | 0 – 100 | 29,792 |
| Residential mortgages | 4,277,550 | 4,367,759 | 35 | 1,503,818 |
| Insured mortgages | 722,751 | 739,722 | 0 | – |
| High-ratio mortgages | 447,794 | 590,567 | 75 | 335,846 |
| Personal loans | 378,743 | 425,229 | 75 | 284,057 |
| Commercial loans and leasing | 2,505,594 | 2,289,937 | 100 | 2,463,879 |
| Other assets/investments | 168,156 | 111,544 | 100 | 168,156 |
| Off balance sheet exposure | | | 0 – 100 | 10,631 |
| | 10,443,577 | 9,853,016 | | 4,796,179 |
| Risk-weighted assets as a percentage of total assets | | | | 45.9% |
| | | | | 47.7% |
| in percent | | | 2008 | 2007 |
| Ratio of capital to risk-weighted assets: | | | | |
| Primary capital to risk-weighted assets | | | 9.39 | 8.57 |
| Secondary capital to risk-weighted assets | | | 1.70 | 1.82 |
| Total capital ratio | | | 11.09 | 10.39 |
| Total general allowance for credit losses | | | 48,027 | 40,116 |
| As a percentage of risk-weighted assets | | | 1.00% | 0.85% |

Investment Services/Subsidiaries

Investing and financial planning continues to be a complex and highly competitive area. We have concentrated on offering simple financial help to our members to provide them with the meaningful resources needed to prosper in the years ahead.

As part of this activity, we market mutual funds. These funds provide our members with another investment option and provide us with an alternative source of fee income. Revenue from these activities decreased to \$13.9 million in 2008 from \$19.2 million in the previous year. The global financial market uncertainties dampened activity in the equity markets considerably in 2008, decreasing fund sales. As at December 31, 2008, we had mutual and segregated funds under administration for our members totalling \$1.4 billion, compared to \$1.8 billion in 2007. These assets are not reflected on the Consolidated Balance Sheet.

As at December 31

| in thousands of dollars | 2008 | 2007 |
|--|---------------|---------------|
| Total assets | \$ 10,443,577 | \$ 9,853,016 |
| Mutual and segregated funds under administration | 1,404,155 | 1,788,361 |
| Securitized mortgages | 494,687 | 205,847 |
| Total assets under administration | \$ 12,342,419 | \$ 11,847,224 |

As mentioned in last year's report, we performed a thorough analysis of our investment services administrative functions in 2007 and concluded that we would benefit by outsourcing these functions. We signed an agreement to contract these services to a third party in early 2008 with services commencing May 2008.

Management's Discussion and Analysis

One of our subsidiary companies, Coast Capital Insurance Services Ltd., provides complementary financial services. Through these operations, members are able to purchase various forms of insurance and invest in segregated funds and/or the equity markets. General insurance continues to be a promising segment of our business with revenues reaching \$21.0 million in 2008, compared to \$20.9 million in 2007.

Equipment financing has become another growing business segment with lease receivables reaching \$186.4 million in 2008, compared to \$171.5 million in 2007. This service has expanded outside of British Columbia through our wholly owned subsidiary Coast Capital Equipment Finance Ltd., providing financing in Alberta, Saskatchewan, Manitoba, and Ontario.

Outlook

Loans and Deposits

The global economic slowdown began to impact British Columbia during the last half of 2008. The real estate market in CCS' trading area slowed down dramatically during that period. The Multiple Listing Unit Sales in CCS' market declined by 32% in 2008 versus 2007 levels. This reduced activity is reflected in lower average real estate values. Subsequently, CCS' loan growth was negative throughout the second half of 2008. We are expecting loan growth to be flat in 2009.

Based on our assessment of some deterioration in the credit quality of our existing loan portfolio, we increased our provision for credit losses to 0.19% of total loans in 2008. This resulted in total allowances for credit losses increasing to 0.64% of total loans in 2008, as compared to 0.50% in 2007. For fiscal 2009, we are targeting to hold our provisions for credit losses in the same range as 2008, subject to adequacy reviews on a regular basis.

While deposit growth in 2008 appears low at 2.8%, the reality is that retail deposit growth was the best we have seen in many years. These deposits actually grew by over \$596 million, replacing certain higher-priced institutional deposits. We expect growth in these core retail deposits to grow at similar rates in 2009, further decreasing CCS' reliance on borrowings.

Net Income

We continue to be asset sensitive. As a result, Net interest income will be negatively affected when interest rates decline. As at March 2009, the Bank of Canada has now lowered its rate by 3.75% since December 2007. As such, most of the impact to CCS' Net interest income already occurred in 2008. With the Bank of Canada rate currently at an historical low of 0.50%, the negative impact from further interest rate reductions is limited. We are forecasting that Net interest income will be modestly higher in 2009 than it was in 2008.

Other income is forecasted to decrease in 2009. This is largely due to the gains on the sales of mortgages that took place in 2008 not being repeated in 2009. So even with the increase expected in Net interest income, and continuing to control Non-interest expense growth, CCS is expecting 2009 Net income before provision for taxes to be below 2008 results.

Current income tax legislation provides that British Columbia corporations were taxed at rates as high as 31.0% in 2008, with this rate declining to 30.0% in 2009. Credit unions can reduce normal corporate income tax rates through a special income tax rate reduction that is based upon the relationship between the level of deposits and accumulated pre-tax earnings that were previously taxed at the reduced rates. Based on our estimated deposit growth for 2009, we may not receive this tax rate reduction on portions of our 2009 taxable income, and accordingly, are increasing our provision for income taxes for fiscal 2009. In the event that deposit growth is greater than anticipated, we will be able to reduce our income tax rate from this projected rate.

Despite the unprecedented uncertainties in the global financial markets and the general slowdown in economic activity in our markets, we are confident that our conservative business model will provide a sound foundation to get us through this challenging period.

Note regarding forward-looking statements:

This Annual Report contains forward-looking statements about the operations, objectives, and expected financial performance of Coast Capital Savings. These statements are subject to risks and uncertainties. Actual results may differ depending on a number of factors, including but not limited to legislative or regulatory changes, interest rates, and general economic conditions in British Columbia and Canada. These issues should be given careful consideration and readers should not place undue reliance on Coast Capital Savings' forward-looking statements.

Management's Responsibility and Auditors' Report to the Members

Management's Responsibility

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with the requirements of the *Credit Union Incorporation Act* and appropriate generally accepted accounting principles in Canada, and include amounts based on informed judgments and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating, and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel; the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets, and records; and a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition. The Board of Directors has appointed an Audit and Risk Management Committee, comprised of six directors, to review with management and auditors the annual financial statements prior to submission to the Board of Directors for final approval.

KPMG LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements, and their report appears at right. They have full and free access to the internal audit staff and the Audit and Risk Management Committee of the Board.

Auditors' Report to the Members

We have audited the consolidated balance sheet of Coast Capital Savings Credit Union as at December 31, 2008, and the consolidated statements of income, members' equity, comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of Coast Capital Savings Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Coast Capital Savings Credit Union as at December 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.



Chartered Accountants

Vancouver, Canada

February 9, 2009



Lloyd Craig
President and
Chief Executive Officer



Hermann Bessert
Chief Financial Officer

Consolidated Balance Sheets

As at December 31

All tabulated in thousands of dollars, unless otherwise stated

| | Notes | 2008 | 2007 |
|--|---------|---------------|--------------|
| Assets: | | | |
| Cash resources | 4 | \$ 1,109,784 | \$ 634,732 |
| Investments | 5 | 833,204 | 685,312 |
| Loans | 6,7,8,9 | 8,364,176 | 8,443,534 |
| Premises and equipment | 10 | 38,791 | 37,521 |
| Other | 11 | 97,622 | 51,917 |
| | | \$ 10,443,577 | \$ 9,853,016 |
| Liabilities: | | | |
| Deposits | 12 | \$ 9,248,779 | \$ 9,000,700 |
| Borrowings | 13 | 548,259 | 294,469 |
| Other | 14 | 80,712 | 63,599 |
| | | 9,877,750 | 9,358,768 |
| Subordinated notes | 15 | 25,000 | 25,000 |
| Class C shares | 16 | 38,669 | 38,879 |
| Members' equity: | | | |
| Class B shares | | \$ 43,669 | \$ 44,464 |
| Retained earnings | | 434,385 | 383,343 |
| Accumulated other comprehensive income | | 24,104 | 2,562 |
| | | 502,158 | 430,369 |
| | | \$ 10,443,577 | \$ 9,853,016 |
| Commitments and contingent liabilities | 21 | | |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board:



Chair, Board of Directors



Chair, Audit and Risk Management Committee

Consolidated Statements of Income

Year ended December 31

All tabulated in thousands of dollars, unless otherwise stated

| | Notes | 2008 | 2007 |
|---|-------|------------|------------|
| Interest income: | | | |
| Loans | | \$ 476,459 | \$ 486,120 |
| Cash resources and investments | | 28,396 | 32,267 |
| | | 504,855 | 518,387 |
| Interest expense: | | | |
| Deposits | | 277,655 | 276,945 |
| Borrowings | | 15,972 | 29,042 |
| | | 293,627 | 305,987 |
| Net interest income | | | |
| Provision for credit losses | 7 | 211,228 | 212,400 |
| | | 15,568 | 6,812 |
| Other income | 18 | 195,660 | 205,588 |
| | | 76,599 | 70,145 |
| | | 272,259 | 275,733 |
| Non-interest expenses: | | | |
| Salaries and employee benefits | | 110,587 | 114,085 |
| Administration | 19 | 41,187 | 42,120 |
| Technology | | 18,320 | 19,159 |
| Occupancy | | 24,778 | 23,565 |
| Community contributions | | 5,059 | 5,022 |
| | | 199,931 | 203,951 |
| Income before provision for income taxes | | | |
| | | 72,328 | 71,782 |
| Provision for income taxes | 20 | 19,899 | 13,163 |
| Net income | | \$ 52,429 | \$ 58,619 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Members' Equity

Year ended December 31

| | Class B shares | Retained earnings | Accumulated other comprehensive income | Members' equity |
|---|----------------|-------------------|--|-----------------|
| <i>All tabulated in thousands of dollars, unless otherwise stated</i> | | | | |
| Balance, January 1, 2007 | \$ 44,954 | \$ 326,833 | \$ - | \$ 371,787 |
| Transitional adjustment on adoption of new accounting policies (note 2) | | (565) | (295) | (860) |
| Net income | - | 58,619 | - | 58,619 |
| Share dividends | 1,815 | (1,815) | - | 0 |
| Cash dividend | - | (115) | - | (115) |
| Income tax deduction on dividends | - | 386 | - | 386 |
| Other comprehensive income | | | 2,857 | 2,857 |
| Share redemption | (2,305) | - | - | (2,305) |
| Balance, December 31, 2007 | 44,464 | 383,343 | 2,562 | 430,369 |
| Net income | - | 52,429 | - | 52,429 |
| Share dividends | 1,714 | (1,714) | - | - |
| Cash dividend | - | (135) | - | (135) |
| Income tax deduction on dividends | - | 462 | - | 462 |
| Other comprehensive income | - | - | 21,542 | 21,542 |
| Share redemption | (2,509) | - | - | (2,509) |
| Balance, December 31, 2008 | \$ 43,669 | \$ 434,385 | \$ 24,104 | \$ 502,158 |

Class B shares are not a membership requirement. These shares are non-transferable, non-cumulative, and non-voting. Retraction and redemption of Class B shares including terms, conditions, and dividends, are set at the discretion of the Board of Directors. The dividend rate is a floating rate and is currently 4.28% (2007 - 4.43%).

CCS has authorized six classes of equity shares. Each class is authorized for an unlimited number of shares with a par value of \$1.

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Year ended December 31

All tabulated in thousands of dollars, unless otherwise stated

| | 2008 | 2007 |
|--|-----------|-----------|
| Net income | \$ 52,429 | \$ 58,619 |
| Other comprehensive income | | |
| Gains on effective portion of cash flow hedges arising during the year (net of income taxes of \$7,169, 2007 – \$605) | 20,635 | 2,852 |
| Reclassification to net income of gains on cash flow hedges (net of income taxes of \$34, 2007 – \$1) | (97) | (6) |
| Unrealized gains on available for sale securities during the year (net of income taxes of \$349, 2007 – \$2) | 1,004 | 11 |
| Total other comprehensive income | 21,542 | 2,857 |
| Comprehensive income | \$ 73,971 | \$ 61,476 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Year ended December 31

All tabulated in thousands of dollars, unless otherwise stated

| | Notes | 2008 | 2007 |
|---|-------|--------------|--------------|
| Cash flows from operating activities: | | | |
| Net income | | \$ 52,429 | \$ 58,619 |
| Adjustments for: | | | |
| Amortization of premises, equipment | 10 | 8,969 | 10,732 |
| Amortization of intangible assets | | 260 | 262 |
| Future income taxes | 20 | (4,086) | (2,697) |
| Gain on mortgage securitization | 9 | (9,984) | – |
| Provision for credit losses | 7 | 15,568 | 6,812 |
| Write-down of asset-backed commercial paper | 5 | 8,300 | 2,400 |
| Changes in accrued interest receivable and payable | | 4,567 | 5,213 |
| Changes in other non-cash operating items | | 7,088 | (11,327) |
| Cash flows from operating activities | | 83,111 | 70,014 |
| Cash flows used in investing activities: | | | |
| Net increase in loans | | (336,392) | (803,531) |
| Net (increase) decrease in investments | | (71,268) | (297,199) |
| Net purchase of premises and equipment | | (10,239) | (7,130) |
| Cash flows used in investing activities | | (417,899) | (1,107,860) |
| Cash flows from financing activities: | | | |
| Net increase in deposits | | 250,322 | 642,639 |
| Net increase in borrowing | 13 | 253,790 | 294,469 |
| Net proceeds from mortgage securitization | | 396,707 | – |
| Redemption of Class C shares | 16 | (210) | (254) |
| Net redemption of Class A and B shares | | (2,402) | (2,202) |
| Cash flows from financing activities | | 898,207 | 934,652 |
| Net increase (decrease) in cash and short-term investments | | 563,419 | (103,194) |
| Cash and short-term investments, beginning of year | 4 | 107,179 | 210,373 |
| Cash and short-term investments, end of year | 4 | \$ 670,598 | \$ 107,179 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid during the year | | \$ (297,539) | \$ (295,189) |
| Income taxes paid during the year | | (17,637) | (14,469) |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2008 and 2007. All tabulated in thousands of dollars, unless otherwise stated.

Coast Capital Savings Credit Union (CCS) is incorporated under the British Columbia *Credit Union Incorporation Act*, and its subsidiaries are incorporated under the British Columbia *Company Act* or the *Canada Business Corporations Act*. The operation of CCS is regulated under the British Columbia *Financial Institutions Act*. CCS serves members principally in the Metro Vancouver and Vancouver Island regions of British Columbia.

1. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Principles of consolidation

These consolidated financial statements include the financial position, operating results, and cash flows of CCS, its active subsidiaries Coast Capital Insurance Services Ltd. (CCIS), Coast Capital Equipment Finance Ltd., and inactive subsidiaries. All inter-company transactions and balances have been eliminated.

Variable interest entities (VIEs) are entities that have insufficient equity and/or their equity investors at risk lack one or more of the specified essential characteristics of a controlling financial interest. CCS is required to identify VIEs and determine if CCS has a significant variable interest and/or is the primary beneficiary of the variable interest. The primary beneficiary is required to consolidate a VIE.

CCS neither has significant variable interests in nor is the primary beneficiary of any VIEs. Consequently, the consolidated financial statements do not include the financial position or results of any VIEs.

Business combinations, goodwill, and other intangible assets

Business combinations are accounted for using the purchase method. Identifiable intangible assets are recognized separately from Goodwill and included in Other intangible assets.

Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired. Goodwill impairment is assessed on at least an annual basis. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Other intangible assets with definite lives are amortized over their estimated useful lives, generally not exceeding 10 years, and are also reviewed for indications of impairment annually.

Financial instruments

Effective January 1, 2007, all financial instruments, with certain exceptions, are classified as one of the following: held to maturity (HTM), loans and receivables, held for trading (HFT), available for sale (AFS) or other financial liabilities. All financial instruments are recorded at fair value on initial recognition and are subsequently accounted for based on their classification. Classification depends on the purpose for which the financial instruments were acquired and their characteristics.

Fair values of financial instruments are based on quoted market prices where available from active markets; otherwise 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 the financial asset or liability 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.

HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, which an entity has the positive intention and ability to hold to maturity. The financial assets are accounted for at amortized cost. CCS has designated certain investments as HTM.

Notes to Consolidated Financial Statements

1. Significant accounting policies (continued)

HFT financial assets include securities purchased for resale, generally within a short period of time. They are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from market fluctuations are reported in Other income. Under the fair value option, an entity can designate any financial assets or liabilities on initial recognition as HFT.

Loans and receivables continue to be accounted for at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

AFS financial assets are those non-derivative financial assets that are not designated as loans and receivables, HTM, or HFT. AFS instruments are carried at fair value whereby the unrealized gains and losses are included in Accumulated other comprehensive income until sale or identification of other than temporary impairment at which time the cumulative gain or loss is transferred to the Consolidated Statement of Income. AFS equity instruments that do not have quoted 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 liabilities are recorded at amortized cost using the effective interest method and include all liabilities, other than derivatives, and liabilities designated as HFT. CCS has not designated any financial liabilities as HFT at December 31, 2008.

All derivatives, including embedded derivatives, are recorded at fair value in the Consolidated Balance Sheets.

Cash resources

For the purposes of the Consolidated Statements of Cash Flows, cash and short-term investments comprise balances with less than 90 days maturity from the date of acquisition, including cash and deposits with Central 1 Credit Union (Central 1), treasury bills and other eligible bills, amounts due from other banks, and cheques and other items in transit.

Investments

Investments are accounted for on a trade date basis. Effective January 1, 2007, investments are classified as held to maturity, available for sale, or held for trading.

Loans

Loans are recorded at amortized cost using the effective interest method net of the allowance for credit losses.

Interest income is recorded on the accrual basis. Accrued but uncollected interest is reversed whenever loans are determined to be impaired. CCS classifies a loan as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility, either in whole or in part, of principal or interest. Loans where interest or principal is contractually past due 90 days are automatically categorized as impaired, unless management determines there is no reasonable doubt as to the ultimate collectibility of principal and interest. All loans are classified as impaired when interest or principal is past due 180 days. When a loan is classified as impaired, Interest income is recognized on a cash basis only after any specific provisions or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal.

Loan fees

Loan origination fees, including commitment, renewal, and renegotiation fees, are considered to be adjustments to loan yield, and are deferred and amortized to loan interest income over the term of the loans using the effective interest method.

Allowance for credit losses

CCS maintains an allowance for credit losses which, in management's opinion, is considered adequate to provide for credit-related losses. The allowance is increased for loan impairment by a charge to income and reduced by write-offs net of recoveries.

Notes to Consolidated Financial Statements

1. Significant accounting policies (continued)

A specific allowance is established on an individual loan basis to reduce the carrying value to the loan's estimated realizable amount. The estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably determined, estimated realizable amounts are determined by reference to market prices for the loans or their underlying security.

CCS also maintains a general allowance to absorb credit losses that management estimates have occurred at the balance sheet date for which specific allowances cannot yet be determined. CCS applies a methodology that incorporates loan loss history as the basis for estimating probability of default and loss for various credit portfolios that exhibit similar loan loss characteristics.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Transfers of mortgage receivables

Transfers of mortgages to unrelated parties are treated as sales provided that control over the transferred mortgages has been surrendered and consideration other than beneficial interests in the transferred mortgages has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions. If treated as sales, the mortgages are removed from the Consolidated Balance Sheet, and a gain or loss is recognized in Other income based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The fair values of mortgages sold, retained interests, and recourse liabilities are determined using either quoted market prices or pricing models that take into account management's best estimates of key assumptions such as expected losses, prepayments, and discount rates commensurate with either the risks involved or sales of similar assets. Where CCS continues to service the mortgages sold, a servicing liability is recognized and amortized over the servicing period as servicing fees. Retained interests are recorded at fair value and are reviewed for impairment of an other than temporary nature.

Premises and equipment

Land is carried at cost. Buildings, furniture and equipment, and leasehold improvements are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

| | |
|----------------------------------|----------------|
| Buildings | 40 to 50 years |
| Leasehold improvements | Lease term |
| Computer and telephone equipment | 3 years |
| Furniture and other equipment | 5 to 10 years |
| Computer software | 3 to 5 years |

Gains and losses on disposal are recorded separately in the Consolidated Statements of Income. Gains realized from the sale of land and buildings that are accompanied by a more than minor leaseback agreement are deferred and amortized over the minimum lease period to the extent of the present value of the minimum lease costs. The balance of any gain received is recognized in earnings of the current period.

Derivative instruments and hedges

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates, or other financial indices.

In the ordinary course of business, CCS enters into various derivative contracts, including interest rate forwards, swaps, options, and equity swaps. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. CCS enters into such contracts principally to manage its exposures to interest rate fluctuations as part of its asset/liability management program.

Notes to Consolidated Financial Statements

1. Significant accounting policies (continued)

CCS formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to specific firm commitments or forecasted transactions. CCS also formally assesses, at the hedge's inception, retrospectively and prospectively 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 attributed to hedged risks. Hedges are designated as either fair value or cash flow hedges.

In a cash flow hedging relationship, the effective portion of the change in fair value of the derivative is recorded in Other comprehensive income. The ineffective portion is recognized in Other income.

The amounts recognized in Accumulated other comprehensive income are reclassified to Net income in the same period that the hedged cash flows affect Net income.

In a fair value hedging relationship, the change in the fair value of the hedged item attributable to the hedged risk is recorded in the Consolidated Statements of Income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the hedging derivative.

Non-hedging derivative instruments used in trading activities are marked to market and the resulting realized and unrealized gains or losses are recognized in Other income in the Consolidated Statements of Income in the current period, with a corresponding asset or liability in the Consolidated Balance Sheet.

Income taxes

CCS uses the asset-and-liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is established to reduce future income tax assets to the amount expected to be realized.

Future income tax assets or liabilities are included in Other assets or Other liabilities, as applicable.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statements.

2. Significant accounting changes

The following summarizes accounting policy changes that are relevant to CCS' Consolidated Financial Statements.

Financial instruments

On January 1, 2007, CCS adopted three new Canadian Institute of Chartered Accountants ("CICA") standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income.

Financial instruments – recognition and measurement

On initial adoption of this standard, CCS classified all non-derivative financial assets as one of: HTM, loans and receivables, HFT, or AFS. The impacts to retained earnings and Accumulated other comprehensive income as a result of initial adoption included:

- \$328 net of tax reduction to opening retained earnings to adjust the unamortized amount of certain loan fees accounted for using the effective interest method;
- \$68 net of tax reduction to opening retained earnings for the fair value of derivatives;
- \$12 net of tax charge to opening Accumulated other comprehensive income for an adjustment to fair value of certain investments as available-for-sale securities.

Notes to Consolidated Financial Statements

2. Significant accounting changes (continued)

Hedges

On initial adoption of this new standard, CCS recorded all derivatives at fair value. The impact of revaluing hedging derivatives for cash flow hedges at fair value on January 1, 2007 was \$452 net of tax of which \$283 net of tax was charged to opening Accumulated other comprehensive income. Additionally, \$168 net of tax, representing the ineffective portion of qualifying hedges, was charged to opening retained earnings.

Comprehensive income

Unrealized gains and losses on AFS financial assets, and changes in the fair value of cash flow hedging instruments are recorded in the Statement of Other Comprehensive Income until recognized in the Consolidated Statement of Income. Accumulated other comprehensive income is included on the Consolidated Balance Sheets as a separate component of members' equity. CCS adopted these new standards and re-valued its investments and derivatives, as appropriate, and reports a new section of members' equity called Accumulated other comprehensive income effective January 1, 2007. Prior periods have not been restated.

On initial adoption of the new standards, CCS made the following adjustments to the Consolidated Balance Sheet:

Consolidated balance sheet

| January 1 | 2007 |
|--|----------|
| Available for sale securities | \$ (15) |
| Loans | (6,185) |
| Derivative instruments – assets | 1,072 |
| Other assets | 5,786 |
| Derivative instruments – liabilities | 1,749 |
| Other liabilities | (230) |
| Retained earnings | (565) |
| Accumulated other comprehensive income | \$ (295) |

The impact of these changes on our Consolidated Statement of Income is as follows:

Consolidated statement of income

| Year ended December 31 | 2007 |
|---|----------|
| Interest revenue – loans | \$ 3,023 |
| Interest revenue – derivatives | 180 |
| Other income – trading revenue (losses) | (130) |
| Non-interest expenses – personnel | 3,126 |
| Income taxes | (9) |
| Net income | \$ (44) |

Financial instruments – disclosure and presentation

Effective January 1, 2008, CCS adopted these two new Canadian standards. These sections revise the current standards on financial instrument disclosure and presentation and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. They establish standards for presentation of financial instruments and non-financial derivatives and provide additional guidance with respect to classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

As permitted by this standard, we have included certain of the required disclosures as part of the Management's Discussion and Analysis (MD&A) in the sections indicated on pages 13 to 16, which form an integral part of these financial statements.

Notes to Consolidated Financial Statements

2. Significant accounting changes (continued)

Capital disclosures

Effective January 1, 2008, CCS adopted a new standard on capital disclosures. This standard establishes guidelines for the disclosure of information regarding a financial institution's capital and how it is managed. This will include enhanced disclosure with respect to the objectives, policies, and processes for managing capital along with quantitative disclosures. These disclosures are included in Note 17.

3. Future accounting changes

Effective January 1, 2009, CCS will adopt a new standard, Goodwill and Intangible Assets, replacing the former standard, Goodwill and Other Intangible Assets, as well as Research and Development Costs. Guidance is provided to clarify the distinction between assets and expenses, the definition of an intangible asset, and the recognition of internally generated intangible assets.

Also effective January 1, 2009, CCS will adopt the new EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This provides guidance on considering an entity's own credit risk and the credit risk of its counterparties when determining the fair value of derivative instruments. Retrospective application will be required without replacement.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As a publicly accountable enterprise, CCS will be required to prepare December 31, 2011 financial statements, including comparative information for 2010, in compliance with IFRS.

CCS is currently assessing the potential impact of the transition to IFRS on its financial statements, disclosures, and broader financial reporting systems and controls. This includes analyzing the various elections available upon adoption. The assessment will include the potential impact of the conversion effort on systems, internal controls over financial reporting, disclosure controls, and business activities.

CCS is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and has begun the analysis of the expected areas of impact to CCS. CCS expects to have completed the development of a detailed implementation plan by mid-2009.

4. Cash resources

| | 2008 | 2007 |
|---|---------------------|-------------------|
| Cash | \$ 76,533 | \$ 47,436 |
| Short-term investments, classified as Available for Sale | 594,065 | 59,743 |
| Cash and short-term investments | 670,598 | 107,179 |
| Statutory deposits with Central 1, classified as Held to Maturity | 438,518 | 525,990 |
| Accrued interest | 668 | 1,563 |
| | \$ 1,109,784 | \$ 634,732 |

In accordance with provincial legislation and the terms of arrangements with Central 1, credit unions are required to maintain deposits with Central 1 totalling the lesser of 8% of their deposit and debt liabilities or 1.5% of all British Columbia credit union assets. Deposits with Central 1 earn interest at short-term market rates. The long-term portion of CCS' deposits with Central 1 is shown in Note 5 and classified as Investments.

5. Investments

| | 2008 | 2007 |
|--|-------------------|-------------------|
| Investments, Central 1, classified as Held to Maturity | \$ 596,550 | \$ 623,684 |
| Shares, Central 1, classified as Available For Sale | 26,306 | 25,896 |
| Accrued interest | 7,559 | 10,107 |
| Other, classified as Available for Sale | 202,789 | 25,625 |
| | \$ 833,204 | \$ 685,312 |

Notes to Consolidated Financial Statements

5. Investments (continued)

Shares in Central 1 are a required investment as a condition of membership in Central 1 and provincial legislation, are classified as AFS investments and recorded at cost as there is no active market for these shares. The amount of the share investment in Central 1 is determined based on CCS' membership and assets.

Other is primarily deposit notes and bankers' acceptances with Canadian chartered banks with a carrying value of \$193,489. The remaining amount is an investment in non-bank asset-backed commercial paper (ABCP) with an original par value of \$20,000. When purchased, these securities were rated AAA by Dominion Bond Rating Service. The market for these investments became illiquid in Canada in mid-August 2007 and efforts to restructure these instruments were undertaken by the Pan-Canadian Investors Committee, which represents holders of these ABCP securities. During 2008, CCS became aware that an embedded credit default swap within the specific ABCP trust held by CCS was cancelled resulting in a reduction of approximately 23% of the investment. CCS has undertaken a discounted cash flow analysis using best available data to estimate the fair value for this investment. Accordingly, in 2008 a write-down of \$8,300 (2007 – \$2,400) (Note 18) has been recorded to reflect the cumulative \$10,700 estimated impairment in these securities.

On January 21, 2009, as part of the Pan-Canadian Investors Committee restructuring, this instrument was exchanged for new notes with maturities estimated for 2017. Uncertainty remains with respect to the amount and certainty of future cash flows on the ABCP which could give rise to a material change in the value of CCS' ABCP holdings.

6. Loans

| | Residential mortgages | Personal loans | Commercial mortgages and loans | Total |
|--------------------------------------|-----------------------|----------------|--------------------------------|--------------|
| 2008 | | | | |
| Loan principal | \$ 5,489,637 | \$ 378,743 | \$ 2,527,898 | \$ 8,396,278 |
| Accrued interest | 10,478 | 1,049 | 10,016 | 21,543 |
| Total loans | 5,500,115 | 379,792 | 2,537,914 | 8,417,821 |
| Allowances for credit losses | 10,720 | 10,140 | 32,785 | 53,645 |
| | 5,489,395 | 369,652 | 2,505,129 | 8,364,176 |
| Impaired loans | 11,705 | 1,859 | 20,580 | 34,144 |
| Less amounts where loss not expected | 11,343 | 567 | 16,616 | 28,526 |
| Specific allowances | 362 | 1,292 | 3,964 | 5,618 |
| General allowances | 10,358 | 8,848 | 28,821 | 48,027 |
| Total allowances for credit losses | \$ 10,720 | \$ 10,140 | \$ 32,785 | \$ 53,645 |

| | Residential mortgages | Personal loans | Commercial mortgages and loans | Total |
|--------------------------------------|-----------------------|----------------|--------------------------------|--------------|
| 2007 | | | | |
| Loan principal | \$ 5,730,902 | \$ 425,229 | \$ 2,304,902 | \$ 8,461,033 |
| Accrued interest | 12,810 | 1,546 | 10,661 | 25,017 |
| Total loans | 5,743,712 | 426,775 | 2,315,563 | 8,486,050 |
| Allowances for credit losses | 6,161 | 7,078 | 29,277 | 42,516 |
| | 5,737,551 | 419,697 | 2,286,286 | 8,443,534 |
| Impaired loans | 4,270 | 1,185 | 8,483 | 13,938 |
| Less amounts where loss not expected | 4,209 | 88 | 7,241 | 11,538 |
| Specific allowances | 61 | 1,097 | 1,242 | 2,400 |
| General allowances | 6,100 | 5,981 | 28,035 | 40,116 |
| Total allowances for credit losses | \$ 6,161 | \$ 7,078 | \$ 29,277 | \$ 42,516 |

Substantially all of CCS' loans are written on properties and businesses located in the Metro Vancouver and Vancouver Island regions of British Columbia.

Notes to Consolidated Financial Statements

7. Allowances for credit losses

| | 2008 | 2007 |
|---------------------------------|-----------|-----------|
| Balance, beginning of year | \$ 42,516 | \$ 37,793 |
| Provision for credit losses | 15,568 | 6,812 |
| | 58,084 | 44,605 |
| Loans written off | 5,129 | 3,312 |
| Recoveries of loans written off | 690 | 1,223 |
| Balance, end of year | 53,645 | 42,516 |
| Percentage of total loans | 0.64% | 0.50% |

8. Credit quality

| 2008 | Residential mortgages | Personal loans | Commercial mortgages and loans | Total |
|---|-----------------------|----------------|--------------------------------|-----------|
| Grades | | | | |
| 1 to 3 – satisfactory risk | | | 2,429,872 | 2,429,872 |
| 4 – watch list | | | 76,389 | 76,389 |
| 5 – sub-standard but not impaired | | | 1,057 | 1,057 |
| Commercial mortgages and loans not impaired | | | 2,507,318 | 2,507,318 |
| Residential mortgages and personal loans not impaired | 5,477,932 | 376,884 | | 5,854,816 |
| Loans not impaired | 5,477,932 | 376,884 | 2,507,318 | 8,362,134 |
| Impaired | 11,705 | 1,859 | 20,580 | 34,144 |
| | 5,489,637 | 378,743 | 2,527,898 | 8,396,278 |
| Loans past due | | | | |
| Past due up to 29 days | 113,553 | 3,660 | 5,824 | 123,037 |
| Past due 30 – 89 days | 41,471 | 3,095 | 4,341 | 48,907 |
| Past due 90 – 179 days | 11,195 | 2,131 | 3,690 | 17,016 |
| Past due over 180 days | 8,790 | 782 | 17,873 | 27,445 |
| | 175,009 | 9,668 | 31,728 | 216,405 |
| Loans past due but not impaired | | | | |
| Past due up to 29 days | 113,425 | 3,432 | 5,771 | 122,628 |
| Past due 30 – 89 days | 40,323 | 2,931 | 4,182 | 47,436 |
| Past due 90 – 179 days | 9,556 | 1,446 | 1,195 | 12,197 |
| Past due over 180 days | – | – | – | – |
| | 163,304 | 7,809 | 11,148 | 182,261 |
| Loans impaired | | | | |
| Past due up to 29 days | 128 | 228 | 53 | 409 |
| Past due 30 – 89 days | 1,148 | 164 | 159 | 1,471 |
| Past due 90 – 179 days | 1,639 | 685 | 2,495 | 4,819 |
| Past due over 180 days | 8,790 | 782 | 17,873 | 27,445 |
| | 11,705 | 1,859 | 20,580 | 34,144 |

Credit grades are formally applied to commercial mortgages and loans and comply with provincial regulations. Residential mortgages and personal loans are tested for impairment on a regular basis. If a residential mortgage or personal loan is 14 days past due but not determined to be impaired, management has a formalized process which queues loans by age for regular monitoring.

Notes to Consolidated Financial Statements

9. Transfers of mortgage receivables

As part of its program of liquidity, capital, and interest rate risk management, CCS enters into arrangements to fund mortgage growth by selling loans to unrelated third parties.

As part of these transfers of mortgage receivables, CCS retains servicing responsibilities. CCS does not receive a servicing fee for its servicing responsibilities. CCS' retained interests consist of its rights to future cash flows arising after the investors have received the return for which they contracted and credit enhancement provided to the third parties in the form of cash collateral accounts. The third parties, as holders of the securitized mortgages, have recourse only to a cash collateral account and cash flow from the securitized mortgages. The investors and the third parties have no recourse to CCS' other assets for failure of debtors to pay when due. CCS' retained interests are subject to credit, prepayment, and interest rate risks on the securitized mortgages.

In 2008, gains of \$9,984 (2007 – nil) were recognized on the securitization of residential mortgages, net of the servicing liability of \$2,493 (2007 – nil) recognized initially on securitization. Servicing liabilities amortized to income during the year amounted to \$991 (2007 – \$814). The fair value of servicing liabilities amounted to \$2,569 at December 31, 2008 (2007 – \$1,095). Retained interests recorded at fair value amounted to \$13,612 at December 31, 2008 (2007 – \$736) and is recorded in Other assets. The amount relating to the increase/(decrease) of retained interests that was recorded in Other income during the year was \$2,056 (2007 – \$1,599 charge).

The following table summarizes quantitative information about mortgages securitized by CCS as at December 31, 2008:

| Type of loan | Total principal amount of mortgages | Principal amount of loans over 60 days past due | Average balances |
|--------------|-------------------------------------|---|------------------|
| Residential | \$ 494,687 | \$ 652 | \$ 405,548 |

Key assumptions used in measuring the retained interests at the date of securitization were as follows:

| | 2008 |
|-----------------------------------|---------|
| Prepayment | 24.00 % |
| Expected credit losses | 0.12 % |
| Residual cash flows discounted at | 3.65 % |
| Weighted average life (in years) | 4.38 % |

CCS has no obligation to repurchase the securitized mortgages, which mature as follows:

| | |
|--|------------|
| 2010 | \$ 32,511 |
| 2011 | 155,057 |
| 2012 | 190,152 |
| 2013 | 116,967 |
| | \$ 494,687 |
| Recourse for holders of conventional securitized mortgages | \$ 1,460 |

10. Premises and equipment

| | Cost | Accumulated amortization | 2008 net book value | 2007 net book value |
|-------------------------|-----------|--------------------------|---------------------|---------------------|
| Land | \$ 3,703 | \$ – | \$ 3,703 | \$ 3,703 |
| Buildings | 18,623 | 10,491 | 8,132 | 8,950 |
| Furniture and equipment | 37,737 | 23,646 | 14,091 | 14,477 |
| Leasehold improvements | 21,395 | 8,530 | 12,865 | 10,391 |
| | \$ 81,458 | \$ 42,667 | \$ 38,791 | \$ 37,521 |

Amortization in respect of the above buildings, furniture and equipment, and leasehold improvements amounted to \$8,969 (2007 – \$10,732).

Notes to Consolidated Financial Statements

11. Other assets

| | 2008 | 2007 |
|--|------------------|------------------|
| Accounts receivable | \$ 6,919 | \$ 8,745 |
| Prepaid expenses | 6,684 | 6,685 |
| Future income taxes (Note 20) | 19,634 | 15,548 |
| Goodwill and other intangible assets | 10,285 | 10,545 |
| Derivatives, fair value | 34,911 | 3,496 |
| Retained interests on securitized mortgages (Note 9) | 13,612 | 736 |
| Other | 5,577 | 6,162 |
| | \$ 97,622 | \$ 51,917 |

12. Deposits

| | 2008 | 2007 |
|---------------------------|---------------------|---------------------|
| Demand | \$ 2,106,670 | \$ 1,860,717 |
| Term | 5,665,307 | 5,680,227 |
| Registered plans | 1,372,710 | 1,353,407 |
| Class A membership shares | 1,870 | 1,763 |
| Class P non-equity shares | 212 | 226 |
| Accrued interest | 102,010 | 104,360 |
| | \$ 9,248,779 | \$ 9,000,700 |

Class A membership shares

Class A shares are a membership requirement and are redeemable on demand upon cessation of membership, and accordingly are classified as deposits. These are voting shares with a par value of \$1 each. CCS has authorized an unlimited number of Class A shares.

Class P non-equity shares

Amounts contributed by members for Class P shares can be withdrawn on demand or redeemed at any time by CCS, and accordingly are classified as deposits. These shares have a life insurance component such that the shareholder's estate is paid double the value of the share upon death of the shareholder. These shares do not participate in any annual dividend.

13. Borrowings

| Maturity Date | Interest rate | 2008 | 2007 |
|------------------|---------------|-------------------|-------------------|
| January 2, 2009 | 2.30% | \$ 186,000 | \$ – |
| January 5, 2009 | 2.33% | 124,000 | – |
| January 5, 2009 | 2.29% | 90,000 | – |
| January 5, 2009 | 3.31% | 148,259 | – |
| January 7, 2008 | 5.15% | – | 148,118 |
| January 14, 2008 | 5.03% | – | 146,351 |
| | | \$ 548,259 | \$ 294,469 |

Borrowings are secured by insured residential mortgages. Additionally, CCS has the ability to borrow up to 15% of its total assets from Central 1. Borrowings would be secured by a debenture in favour of Central 1, which creates a floating charge on the assets and undertakings of CCS, and an assignment of book debts.

Notes to Consolidated Financial Statements

14. Other liabilities

| | 2008 | 2007 |
|-------------------------------|------------------|------------------|
| Accounts payable and accruals | \$ 57,515 | \$ 47,691 |
| Taxes payable | 18,438 | 12,865 |
| Deferred fee income | 4,759 | 3,043 |
| | \$ 80,712 | \$ 63,599 |

15. Subordinated notes

The notes are unsecured and subordinated in right of payment to the claims of depositors and certain other creditors. The interest rates are calculated on a floating rate basis. CCS has an option to convert to fixed-interest rates on 30 days' written notice.

| | 2008 | 2007 |
|-----------------|------------------|------------------|
| Maturity date | | |
| August 25, 2016 | \$ 25,000 | \$ 25,000 |
| | \$ 25,000 | \$ 25,000 |

16. Class C shares

| | 2008 | 2007 |
|---------------------------------------|-----------|-----------|
| Issued and outstanding Class C shares | \$ 38,669 | \$ 38,879 |

During 2003, the Credit Union issued a Disclosure Statement regarding the sale of Class C Shares – Series 1 at a price of \$1.00 per Class C share. These non-voting, non-transferable shares receive a non-cumulative cash dividend equal to 6%. The shares are redeemable on June 27, 2009 at their par value of \$1.00 per share. The rights of claim of Class C shares ranks after claims of the depositors, certain other claims, and subordinated notes, but rateably with holders of Class B shares.

17. Capital management

Section 1535 of the CICA Standards, Capital Disclosures, requires CCS to disclose information that enables users of the financial statements to evaluate the objectives, policies, and processes for managing capital.

a) Objectives, policies, and processes

CCS objectives in managing financial capital resources include: generating value to all stakeholders but primarily to member/customers while ensuring the long term viability of the credit union by holding a level of capital deemed sufficient to protect against unanticipated losses; providing prudent depositor security; and exceeding applicable regulatory requirements and long-term internal targets.

CCS policy is to hold capital in a range of different forms and from diverse sources but with an emphasis in growing retained earnings. Retained earnings represent the highest quality, the most stable, and the least expensive form of capital.

To ensure processes are in place to meet its objectives, CCS follows policies approved by the Board of Directors ("the Board"). Management monitors capital levels on a regular basis. The capital plan is updated annually and provides a forecast of capital requirements over a five-year horizon.

CCS Finance and Treasury departments manage compliance with policies monthly, with regular monitoring by the Asset and Liability Committee ("ALCO"). ALCO is chaired by the Vice President, Treasury, and includes the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Innovation Officer, Chief Credit Officer, and senior executives responsible for marketing and finance. Positions and limits are monitored by a sub-committee in intervening weeks. This sub-committee is also chaired by the Vice President, Treasury, and includes members responsible for treasury and marketing. Departures from policy are reported to the Investment and Lending Committee of the Board (ILCO) with a detailed action plan to resolve any deviation.

Notes to Consolidated Financial Statements

17. Capital management (continued)

b) Capital management

Total capital comprises both primary and secondary capital. Capital requirements are regulated by the Financial Institutions Commission (FICOM) using the risk-weighted approach developed by the Bank for International Settlements (BIS). FICOM established a minimum capital standard based on a ratio of capital to risk-weighted assets of 8.0%. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1.

Tier 1 capital is the permanent capital of the credit union, comprising primarily of retained earnings but also voting shares, qualifying investment shares, and contributed surplus. It is offset by future income tax debits and various capital deductions such as Goodwill as prescribed by FICOM. Investment share redemption is subject to limitations, reviewed at least annually, ensuring adequate capital for both regulatory and operational purposes.

Tier 2 capital includes subordinated debentures, other investment shares, and 50% of a credit union's portion of retained earnings in the Credit Union Deposit Insurance Corporation (CUDIC), Central 1, and Stabilization Central Credit Union (Stab Central). FICOM presently excludes one section of members' equity, Accumulated other comprehensive income, from either primary or secondary capital.

A credit union's assets are weighted according to six categories of relative risk ranging from 0% to 200%. Residential mortgages, the largest portion of our assets, are risk-weighted at 35%, while commercial loans, the second largest portion, are risk-weighted at 100%.

At December 31, CCS reported the following components of regulatory capital:

| | 2008 | 2007 |
|----------------|------------|------------|
| Tier 1 capital | \$ 450,595 | \$ 402,791 |
| Tier 2 capital | 81,255 | 85,555 |
| Total capital | \$ 531,850 | \$ 488,346 |

18. Other income

| | 2008 | 2007 |
|---|-----------|-----------|
| General insurance commissions, net | \$ 21,018 | \$ 20,931 |
| Mutual and segregated fund commissions | 13,853 | 19,155 |
| Account service charges | 15,083 | 13,215 |
| Creditor and life insurance commissions | 7,604 | 7,248 |
| Foreign exchange | 5,357 | 4,910 |
| Loan processing fees | 1,823 | 1,538 |
| Credit card commissions | 2,458 | 2,611 |
| Safety deposit box rental income | 1,314 | 1,144 |
| Securitization income | 13,031 | (755) |
| Write-down of asset-backed commercial paper investment (Note 5) | (8,300) | (2,400) |
| Other | 3,358 | 2,548 |
| | \$ 76,599 | \$ 70,145 |

Notes to Consolidated Financial Statements

19. Administration expenses

| | 2008 | 2007 |
|---|------------------|------------------|
| Assessments to Credit Union Deposit Insurance Corporation | \$ 4,510 | \$ 2,512 |
| Assessments to Central 1, Financial Institutions Commission | 2,556 | 2,480 |
| Chequing service charges | 3,760 | 3,344 |
| Marketing | 5,752 | 6,664 |
| Capital taxes | 3,350 | 4,150 |
| Bonding and other insurance | 1,951 | 1,778 |
| Professional services | 2,410 | 2,956 |
| Stationery, telephone, and postage | 5,701 | 6,297 |
| Travel, meals, and entertainment | 2,018 | 2,089 |
| Loan processing | 1,212 | 1,872 |
| Courier | 1,071 | 1,069 |
| Training and recruitment | 837 | 752 |
| Other | 6,059 | 6,157 |
| | \$ 41,187 | \$ 42,120 |

20. Provision for income taxes

| | 2008 | 2007 |
|----------------------|------------------|------------------|
| Current income taxes | \$ 23,985 | \$ 15,860 |
| Future income taxes | (4,086) | (2,697) |
| | \$ 19,899 | \$ 13,163 |

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 31.0% (2007 – 34.1%) to income before income taxes. The reasons for the differences are as follows:

| | 2008 | | 2007 | |
|--|------------------|---------------------|------------------|---------------------|
| | Amount | % of pre-tax income | Amount | % of pre-tax income |
| Combined federal and provincial statutory income taxes | \$ 22,422 | 31.0 | \$ 24,492 | 34.1 |
| Reduction applicable to credit unions | (5,086) | (7.0) | (11,462) | (16.0) |
| Change in estimate of tax rates | 470 | 0.7 | 387 | 0.5 |
| Other | 2,093 | 2.8 | (254) | (0.3) |
| Effective income tax rate | \$ 19,899 | 27.5 | \$ 13,163 | 18.3 |

The components of the future income tax asset, net are as follows:

| | 2008 | 2007 |
|--|------------------|------------------|
| Allowance for credit losses | \$ 11,799 | \$ 9,938 |
| Deferred revenue/prepaid expense | 1,118 | 596 |
| Restructuring costs | 963 | 855 |
| Employee future benefits | 1,134 | 1,124 |
| Capital and intangible assets | 1,485 | 515 |
| Write-down on ABCP | 2,416 | 423 |
| Other | 719 | 2,097 |
| Future income tax asset, net (Note 11) | \$ 19,634 | \$ 15,548 |

Notes to Consolidated Financial Statements

21. Commitments and contingent liabilities

a) Commitments

Lease commitments

CCS occupies premises under long-term leases extending to 2018. Aggregate basic annual lease payments are as follows:

| | | |
|------------------|----|-------|
| 2009 | \$ | 9,807 |
| 2010 | | 7,637 |
| 2011 | | 6,826 |
| 2012 | | 6,166 |
| 2013 | | 4,924 |
| Subsequent years | | 8,650 |

Credit instruments

CCS enters into various off balance sheet commitments such as letters of credit and loan commitments. These are not reflected in the Consolidated Balance Sheets. In the normal course of business, many of these arrangements will expire or terminate without being drawn upon, and therefore the actual credit risk is expected to be less than the amounts set forth. Details of these are as follows:

| | 2008 | 2007 |
|---------------------------|--------------|--------------|
| Lines of credit, unfunded | \$ 1,473,387 | \$ 1,400,222 |
| Letters of credit | \$ 52,176 | \$ 57,034 |

CCS, as part of its commercial lending services program, issues letters of credit and guarantees. These are issued in the normal course of business. CCS issues guarantees that commercial clients will perform certain work or services on behalf of third parties. Additionally, CCS may issue guarantees to facilitate commercial trade of goods and services between clients and third parties. CCS' policy for requiring collateral security with respect to these instruments held is generally the same as for loans. As at December 31, 2008, all but \$2,712 (2007 – \$2,233) of the total letters of credit and guarantees issued were secured by deposits by the borrower with CCS. Management estimates that there will be no losses under these obligations that require an allowance for credit losses.

b) Contingencies

CCS is involved in various claims arising in the normal course of business. CCS cannot state what the ultimate outcome of such matters will be; however, based on current information and knowledge, management considers that adequate provisions have been recorded in the consolidated financial statements in respect of claims issued. Management regularly assesses the adequacy of accruals for contingent liabilities.

22. Interest rate sensitivity position

Interest rate risk results from differences in the maturities or repricing dates of interest rate sensitive assets and liabilities, both on and off the Consolidated Balance Sheets. The resultant mismatch, or gap, to which it is commonly referred, may produce favourable or unfavourable variances on interest margins depending on the direction of the gap, the direction of interest rate movements, and/or the volatility of those interest rates. The maturity or repricing profiles change daily in the ordinary course of business as members select different terms of mortgages, member loans, and deposits.

Notes to Consolidated Financial Statements

22. Interest rate sensitivity position (continued)

| 2008 | Fixed-rate terms | | | | | | | Total | % |
|--|------------------|-------------|------------|-------------|-----------|-----------|------------------------|------------|------|
| | Variable rate | 0-3 months | 4-6 months | 7-12 months | 1-3 years | 3 years+ | Non-interest sensitive | | |
| Assets | | | | | | | | | |
| Cash and investments | – | 1,432,016 | 150,000 | 28,923 | 132,991 | 91,876 | 107,182 | 1,942,988 | 1.89 |
| Loans | 3,771,801 | 229,027 | 237,891 | 343,317 | 1,749,587 | 2,067,355 | (34,802) | 8,364,176 | 4.79 |
| Other assets | – | – | – | – | – | – | 136,413 | 136,413 | – |
| | 3,771,801 | 1,661,043 | 387,891 | 372,240 | 1,882,578 | 2,159,231 | 208,793 | 10,443,577 | |
| Asset yield | 4.14% | 2.15% | 3.88% | 5.18% | 4.91% | 5.19% | – | | 4.19 |
| Liabilities | | | | | | | | | |
| Deposits | 1,540,616 | 1,703,615 | 792,889 | 2,276,989 | 1,654,928 | 589,937 | 689,805 | 9,248,779 | 2.70 |
| Borrowings | 548,259 | – | – | – | – | – | – | 548,259 | 2.65 |
| Other liabilities | 328 | – | – | – | – | – | 80,384 | 80,712 | 0.01 |
| | 2,089,203 | 1,703,615 | 792,889 | 2,276,989 | 1,654,928 | 589,937 | 770,189 | 9,877,750 | |
| Liability cost | 1.61% | 3.37% | 3.57% | 3.33% | 3.84% | 4.42% | – | | 2.88 |
| Subordinated notes | 25,000 | – | – | – | – | – | – | 25,000 | 3.15 |
| Class C shares | – | – | 38,669 | – | – | – | – | 38,669 | 6.00 |
| | 2,114,203 | 1,703,615 | 831,558 | 2,276,989 | 1,654,928 | 589,937 | 770,189 | 9,941,419 | |
| Total liability cost | 1.62% | 3.37% | 3.68% | 3.33% | 3.84% | 4.42% | – | | 2.89 |
| Members' equity | | | | | | | | | |
| Class B shares | 43,669 | – | – | – | – | – | – | 43,669 | |
| Retained earnings | – | – | – | – | – | – | 434,385 | 434,385 | |
| Accumulated other comprehensive income | – | – | – | – | – | – | 24,104 | 24,104 | |
| | 43,669 | – | – | – | – | – | 458,489 | 502,158 | |
| Balance sheet mismatch | 1,613,929 | (42,572) | (443,667) | (1,904,749) | 227,650 | 1,569,294 | (1,019,885) | – | |
| Interest rate swaps | | | | | | | | | |
| Assets | – | 140,000 | 130,000 | 360,000 | 580,000 | 60,000 | – | 1,270,000 | 3.41 |
| Liabilities | – | 1,225,000 | – | – | 45,000 | – | – | 1,270,000 | 2.39 |
| | – | (1,085,000) | 130,000 | 360,000 | 535,000 | 60,000 | – | – | |
| Net mismatch | 1,613,929 | (1,127,572) | (313,667) | (1,544,749) | 762,650 | 1,629,294 | (1,019,885) | – | |

Notes to Consolidated Financial Statements

22. Interest rate sensitivity position (continued)

| 2007 | Fixed-rate terms | | | | | | Non-interest sensitive | Total | % |
|--|------------------|-------------|------------|-------------|-----------|-----------|------------------------|-----------|------|
| | Variable rate | 0-3 months | 4-6 months | 7-12 months | 1-3 years | 3 years+ | | | |
| Assets | | | | | | | | | |
| Cash and investments | - | 994,410 | 98,000 | 70,000 | 69,500 | - | 88,134 | 1,320,044 | 4.08 |
| Loans | 3,091,506 | 199,983 | 249,779 | 488,859 | 1,672,557 | 2,772,592 | (31,742) | 8,443,534 | 5.78 |
| Other assets | - | - | - | - | - | - | 89,438 | 89,438 | - |
| | 3,091,506 | 1,194,393 | 347,779 | 558,859 | 1,742,057 | 2,772,592 | 145,830 | 9,853,016 | |
| Asset yield | 6.60% | 4.14% | 3.69% | 4.49% | 4.89% | 5.32% | - | | 5.50 |
| Liabilities | | | | | | | | | |
| Deposits | 1,332,983 | 2,135,264 | 705,324 | 2,200,293 | 1,473,030 | 467,085 | 686,721 | 9,000,700 | 3.45 |
| Borrowings | 294,469 | - | - | - | - | - | - | 294,469 | 4.47 |
| Other liabilities | 155 | - | - | - | - | - | 63,444 | 63,599 | |
| | 1,627,607 | 2,135,264 | 705,324 | 2,200,293 | 1,473,030 | 467,085 | 750,165 | 9,358,768 | |
| Liability cost | 2.26% | 4.63% | 4.22% | 4.27% | 4.57% | 4.44% | - | | 3.71 |
| Subordinated notes | 25,000 | - | - | - | - | - | - | 25,000 | 6.39 |
| Class C shares | - | - | - | - | 38,879 | - | - | 38,879 | 6.00 |
| | 1,652,607 | 2,135,264 | 705,324 | 2,200,293 | 1,511,909 | 467,085 | 750,165 | 9,422,647 | |
| Total liability cost | 2.33% | 4.63% | 4.22% | 4.27% | 4.61% | 4.44% | - | | 3.73 |
| Members' equity | | | | | | | | | |
| Class B shares | 44,464 | - | - | - | - | - | - | 44,464 | |
| Retained earnings | - | - | - | - | - | - | 383,343 | 383,343 | |
| Accumulated other comprehensive income | - | - | - | - | - | - | 2,562 | 2,562 | |
| | 44,464 | - | - | - | - | - | 385,905 | 430,369 | |
| Balance sheet mismatch | | | | | | | | | |
| Balance sheet mismatch | 1,394,435 | (940,871) | (357,545) | (1,641,434) | 230,148 | 2,305,507 | (990,240) | - | |
| Interest rate swaps | | | | | | | | | |
| Assets | - | 195,000 | 70,000 | 20,000 | 500,000 | - | - | 785,000 | 4.57 |
| Liabilities | - | 740,000 | - | - | - | 45,000 | - | 785,000 | 3.45 |
| | - | (545,000) | 70,000 | 20,000 | 500,000 | (45,000) | - | - | |
| Net mismatch | 1,394,435 | (1,485,871) | (287,545) | (1,621,434) | 730,148 | 2,260,507 | (990,240) | - | |

In managing interest rate risk, CCS relies primarily upon its contractual interest rate sensitivity position adjusted for certain assumptions regarding customer behaviour preferences, which are based upon historical trends. Adjustments made include assumptions relating to early repayment of loans and customer preferences for demand, notice, and redeemable deposits.

23. Derivative instruments

On January 1, 2007, CCS adopted the CICA's new accounting requirements for hedging derivatives. All hedging derivatives have been recorded at fair value. Prior to January 1, 2007, CCS accounted for derivatives that qualified as accounting hedges on an accrual basis.

Notes to Consolidated Financial Statements

23. Derivative instruments (continued)

Changes in the fair value of hedging derivatives, to the extent that they are effective in offsetting cash flows of the hedged item, are either offset in our Consolidated Statement of Income against the changes in the fair value of the risk being hedged, or recorded in Other comprehensive income, unrealized gain (loss) on cash flow hedges. If the change in fair value of the derivative is not completely offset by the change in fair value of the item it is hedging, the difference is recorded immediately in our Consolidated Statement of Income.

Types of derivatives

Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows. Generally, counterparties exchange fixed- and floating-rate interest payments on a notional value. Notional amounts are not exchanged.

Options are contractual agreements that convey to the buyer the right but not the obligation to either buy or sell a specified amount of a currency, commodity, interest rate sensitive financial instrument or security at a fixed future date or at any time within a fixed future period.

Use of derivatives

Hedging derivatives are entered into in accordance with a risk management strategy to hedge interest rate exposure.

Trading derivatives include options transacted to generate trading income and certain interest rate swaps that do not qualify as hedges for accounting purposes. Trading derivatives are marked to fair value. Realized and unrealized gains and losses are recorded in Other income in the Consolidated Statement of Income. Unrealized gains on trading derivatives are recorded as Other assets and unrealized losses on trading derivatives are recorded as Other liabilities in the Consolidated Balance Sheet.

Risks hedged

Interest rate swaps are one tool that CCS uses to manage interest rate risk. These contracts are linked to and adjust the interest rate sensitivity of a specific asset, liability, forecasted transaction or a specific pool of transactions, with similar risk characteristics.

A derivative will qualify as a hedge if the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge, the specific asset, liability or cash flow being hedged, as well as how effectiveness is being assessed.

Changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on balance sheet items or changes in the amount of future cash flows. The effectiveness of these hedging relationships is evaluated at inception of the hedge and on an ongoing basis, both retrospectively and prospectively using quantitative statistical measures of correlation. Any ineffectiveness in the hedging relationship is recognized in the Consolidated Statement of Income as it arises.

Cash flow hedges

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. Under the new rules, CCS continues to record interest receivable or payable on the derivative as an adjustment to interest in the Consolidated Statement of Income. To the extent that changes in the fair value of the derivative offset changes in the fair value of the hedged item, they are recorded in Other comprehensive income. Any portion of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item (ineffectiveness of the hedge) is recorded directly to Interest expense in the Consolidated Statement of Income.

For cash flow hedges that are discontinued prior to the end of the original hedge term, the unrealized gain or loss in Other comprehensive income is amortized to interest in the Consolidated Statement of Income as the hedged item impacts earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in interest in the Consolidated Statement of Income.

Notes to Consolidated Financial Statements

23. Derivative instruments (continued)

CCS has the following derivatives:

| | Notional amounts Maturities of derivatives | | | | Total 2007 | Fair values 2008 | Fair values 2007 |
|-----------------------------------|---|--------------|--------------|---------------|---------------|------------------------|------------------------|
| | 0–12 months | 1–3 years | 3–5 years | Total 2008 | | | |
| Interest rate swaps | | | | | | | |
| Receive fixed | \$ 585,000 | \$ 580,000 | \$ 30,000 | \$ 1,195,000 | \$ 520,000 | \$ 32,807 | \$ (289) |
| Forward starting receive fixed | – | – | 30,000 | 30,000 | 220,000 | 2,103 | 2,972 |
| Pay fixed | – | 45,000 | – | 45,000 | 45,000 | (3,085) | (45) |
| Options | | | | | | | |
| Forward contracts | 17,376 | – | – | 17,376 | – | (200) | – |
| US currency options | 1,000 | – | – | 1,000 | 10,988 | 1 | (11) |
| Total derivative contracts | \$ 603,376 | \$ 625,000 | \$ 60,000 | \$ 1,288,376 | \$ 795,988 | \$ 31,626 | \$ 2,627 |

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

24. Fair value of financial instruments

The following table represents the fair values of CCS' financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the balance sheet date. The fair value of financial assets and liabilities with floating rates of interest is assumed to be equal to book value, as the interest rates on these instruments automatically reprice to market rates. Fair values of other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short-term nature. Fair values of derivative financial instruments have been based on market price quotations. No fair values have been determined for capital assets, or any other asset or liability that is not a financial instrument.

The undernoted fair values, presented for information only, reflect conditions that existed only at the respective balance sheet dates and do not necessarily reflect future value or the amounts CCS might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

| | 2008 | | | 2007 | | |
|---------------------|---------------|---------------|------------|---------------|---------------|-------------|
| | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Assets: | | | | | | |
| Cash resources | \$ 1,109,784 | \$ 1,110,143 | \$ 359 | \$ 1,047,078 | \$ 1,047,254 | \$ 176 |
| Investments | 833,204 | 834,540 | 1,336 | 272,966 | 272,794 | (172) |
| Loans | 8,364,176 | 8,364,677 | 501 | 8,443,534 | 8,351,486 | (92,048) |
| Other | 26,108 | 26,108 | – | 19,139 | 19,139 | – |
| | \$ 10,333,272 | \$ 10,335,468 | \$ 2,196 | \$ 9,782,717 | \$ 9,690,673 | \$ (92,044) |
| Liabilities: | | | | | | |
| Deposits | \$ 9,248,779 | \$ 9,244,746 | \$ (4,033) | \$ 9,000,700 | \$ 8,986,211 | \$ (14,489) |
| Borrowings | 548,259 | 548,259 | – | 294,469 | 294,469 | – |
| Other | 54,231 | 54,231 | – | 47,292 | 47,292 | – |
| Subordinated notes | 25,000 | 25,000 | – | 25,000 | 25,000 | – |
| Class C shares | 38,669 | 40,482 | 1,813 | 38,879 | 39,779 | 900 |
| | \$ 9,914,938 | \$ 9,912,718 | \$ (2,220) | \$ 9,406,340 | \$ 9,392,751 | \$ (13,589) |
| Derivatives | \$ 31,627 | \$ 31,627 | \$ – | \$ 2,627 | \$ 2,627 | \$ – |

Notes to Consolidated Financial Statements

25. Classification of financial instruments

| | Trading | Available for sale | Held to maturity | Hedging | Loans and receivables | Financial liabilities ¹ | Other ² | Total |
|---|---------|-----------------------|---------------------|-----------|--------------------------|---------------------------------------|--------------------|---------------|
| Financial assets | | | | | | | | |
| Cash | | | | | \$ 76,533 | | \$ | 76,533 |
| Short term investments | | \$ 594,292 | | | | | | 594,292 |
| Statutory deposits with Central 1 | | | \$ 438,959 | | | | | 438,959 |
| Investments with Central 1 | | | 601,694 | | | | | 601,694 |
| Shares in Central 1 | | 26,853 | | | | | | 26,853 |
| Other investments | | 204,657 | | | | | | 204,657 |
| Loans | | | | | 8,364,176 | | | 8,364,176 |
| Derivatives | | | | \$ 34,911 | | | | 34,911 |
| Premises and equipment | | | | | | \$ 38,791 | | 38,791 |
| Other assets | | 13,612 | | | 12,496 | | 36,603 | 62,711 |
| | - | \$ 839,414 | \$ 1,040,653 | \$ 34,911 | \$ 8,453,205 | - | \$ 75,394 | \$ 10,443,577 |
| Financial liabilities and equity | | | | | | | | |
| Deposits | | | | | | \$ 9,248,779 | | \$ 9,248,779 |
| Borrowings | | | | | | 548,259 | | 548,259 |
| Derivatives | | | | \$ 3,285 | | | | 3,285 |
| Other liabilities | | | | | | 54,231 | \$ 23,196 | 77,427 |
| Subordinated notes | | | | | | 25,000 | | 25,000 |
| Investment shares | | | | | | 38,669 | | 38,669 |
| Equity | | | | | | | 502,158 | 502,158 |
| | - | - | - | \$ 3,285 | - | \$ 9,914,938 | \$ 525,354 | \$ 10,443,577 |

1 Financial liabilities are measured at amortized cost.

2 Assets, liabilities, and equity that are excluded from the definition of financial instruments as defined in CICA Handbook Section 3855.

26. Related-party transactions

At December 31, 2008, outstanding loans to directors, officers, and employees totalled \$277,281 (2007 – \$257,122), which included 1,143 mortgages totalling \$221,997 and 2,282 other loans totalling \$55,284.

During the year, directors received remuneration of \$614 (2007– \$445). Directors do not receive or pay preferred rates on products and services offered by the credit union.

27. Pension plan

CCS is a participating member of the British Columbia Credit Union Employees' Pension Plan, a contributory defined-benefit plan.

As at December 31, 2006, the plan actuary reported that the plan had assets in excess of actuarial liabilities for accrued pension benefits. However, indicators are that net assets at December 31, 2008 are less than liabilities. Since this plan is a multi-employer plan, the impact to CCS is limited to increasing future contributions or modifications of future benefits. The next actuarial review is scheduled for the period ending December 31, 2009 and should be available in September 2010.

Pension expense included in the Consolidated Statements of Income was \$2,008 (2007– \$1,940).

28. Purchase of SMS non-voting shares

Pursuant to the merger agreement with Surrey Metro Savings Credit Union (SMS) of June 27, 2002, CCS became obligated to purchase all SMS non-voting shares for \$21.00 each. As at December 31, 2008, Computershare Investor Services held \$9,100 (2007 – \$9,144) representing the amount previously payable to former holders for 433,320 non-tendered shares (2007 – 435,414); \$8,998 of these funds are placed with CCS. All unclaimed funds will be dealt with in accordance with the rights and restrictions attached to the SMS non-voting shares and any applicable legislation.

Corporate Governance

The Board of Directors reviews and approves the strategic direction of the credit union. It sets policy and is responsible for overseeing management and ensuring Coast Capital Savings complies with regulatory and statutory requirements.

A highly competent Board of Directors is required for the effective governance of the credit union. The elected directors serving on Coast Capital Savings' Board must bring the skills and expertise required to enable the Board to effectively guide and oversee one of Canada's largest co-operative financial institutions. Both the Board and senior management are committed to excellence in sound business practices and the achievement of responsible economic, social, and environmental objectives.

Governance of Coast Capital Savings

Coast Capital Savings supports the Corporate Governance Guidelines for Building High Performance Boards published by the Canadian Coalition for Good Governance and uses these in evaluating and enhancing the governance of the credit union.

Board of Directors

Coast Capital Savings is committed to building a Board of Directors that meets the needs of the credit union, both in the present and into the future. All directors, including the Chair, are currently independent. The definition of a "non-independent director" is any person who derives more than 5% of their commercial business income from their relationship with Coast Capital Savings. Ten Board meetings were held in 2008. A portion of each regularly scheduled Board meeting is set aside for a directors-only session with the Chief Executive Officer (CEO) and a directors-only session without the CEO. The Chair, as the presiding Board member, ensures that the relationships between the Board, senior management, and the membership are effective, efficient, and further the best interests of Coast Capital Savings.

Board Mandate

The Board of Directors is responsible under law for managing Coast Capital Savings' business and its affairs. It has the statutory authority and obligation to protect and enhance the assets of the credit union.

The duties and responsibilities of the Board of Directors are set out in the mandate for the Board. The Board reviews its mandate annually against the constantly evolving expectations of best practices in Canadian and international corporate governance.

Position Descriptions

Annually, the Board reviews the position descriptions for directors, the Board Chair, committee chairs, and the Chief Executive Officer. A director's job is to work with the Board in providing strategic advice and business oversight of the credit union's operations. This includes critiquing and giving approval to the credit union's strategic plan and annual operating plan. Directors are required to act honestly, in good faith, and in the best interests of the credit union. In doing so, they must take into account the interests of the members, depositors, and any others that directors owe a fiduciary duty.

Orientation and Continuing Education

New directors are provided an orientation to familiarize them with the business of the credit union and the Board's governance processes. The orientation provides a detailed review of Coast Capital Savings' operations and strategy, and the directors' roles, authorities, responsibilities, and liabilities in governing the credit union.

All directors are required to further develop their knowledge and skills to enhance their performance on the Board. Funding is made available to each director to facilitate opportunities for continuous learning. Director education and development provides all directors with governance, technical, and relevant industry information in the changing regulatory and operating environment of the financial services industry.

Ethical Business Conduct

The Board embraces its stewardship responsibilities to ensure a culture of ethical behaviour and continuous improvement in all aspects of its governance practices. Directors work to ensure Coast Capital Savings meets public, regulatory, customer, and member expectations in compliance with existing laws.

The Board has approved a Code of Conduct for directors, officers, and employees stating the values upheld by Coast Capital Savings and the standards of behaviour expected. Each year, a Conduct Review Committee comprised of a minimum of three directors is elected by the Board and is responsible under its mandate for reviewing and overseeing compliance with the Code. Annually, each director is required to formally adopt and agree to the Code of Conduct and Ethics for Directors. Employees are required to sign the Code of Conduct during the annual review process.

Corporate Governance

Nomination of Directors

Following the Annual General Meeting, the Board appoints a Nominations Committee as required by the Rules of the credit union. The committee reports directly to the membership, not to the Board. The composition of the committee is restricted to directors who will not be standing for re-election in the ensuing year. The committee retains the services of an expert external resource to assist in seeking out and screening for highly qualified nominees.

In keeping with its mandate and adhering to good corporate governance practices, the committee carries out a due diligence review of all nominees, including a structured full-committee interview of new nominees whose stated skills and experience match the current year's ideal candidate description. Following the interviews and at the completion of all the due diligence reviews, the committee determines those candidates it will recommend for election to the Board.

The committee is responsible for:

- Approving an updated ideal candidate description for the current year based on a gap analysis of the required skills and experience required within the Board of Directors to oversee the implementation of Coast Capital Savings' strategic plan
- Sourcing candidates for election to the Board who possess the skills and experience set out in the ideal candidate description
- Recommending candidates for election to the Board equal to the number of available positions coming vacant
- Providing information to all Coast Capital Savings members in a standard format for all candidates seeking election to the Board
- Recommending to the Board the appointment of an independent returning officer to supervise the election
- Receiving certified election results from the returning officer

The results of each year's director elections are announced at the Annual General Meeting by the Chair of the Nominations Committee.

Director Remuneration

A Remuneration Philosophy for directors of the credit union and the authority for the Board to set director remuneration in accordance with the philosophy are approved by the membership. The current remuneration amounts paid to directors were determined by an external compensation consultant in 2007, approved by the Board, and are in accordance with the member-approved Remuneration Philosophy. Remuneration is reviewed at three-year intervals by the Governance Committee. Total remuneration paid to directors in 2008 was \$575,638 (including matching Canada Pension Plan contributions as required by law). Directors do not receive any product or service preferences that are not available to the general membership. Detailed information about Director remuneration is available on the Corporate Governance section of the credit union's website at www.coastcapitalsavings.com or by calling 1.888.517.7000.

Board Committees and Meetings

The Board delegates specific tasks to six standing committees: Audit and Risk Management, Conduct Review, Governance, Human Resources, Investment and Loan, and Nominations. Each committee is comprised of at least three directors. The Board Chair serves ex officio on those committees to which he/she has not otherwise been elected or appointed. Each committee can draw upon the resources of the CEO and other members of management as appropriate, and is authorized by the Board to engage outside advisors as required. The Board determines the authority and responsibilities of each committee and approves the mandate and membership annually. Committees meet in-camera as a matter of routine, make recommendations to the Board, and, with the exception of the Nominations Committee, report regularly to the Board. The Nominations Committee is accountable to and reports directly to the membership.

Audit and Risk Management Committee – ensures quality financial reporting and sound internal controls are in place, implemented, and maintained. The committee is the liaison between risk management (which includes internal audit) and other internal resources, the external auditors, and the Board of Directors.

Conduct Review Committee – establishes and oversees the business conduct and ethical behaviour for the credit union, its directors, and its employees. The committee is responsible for monitoring the credit union's compliance with the *Privacy Act* and the *Financial Institutions Act*, including oversight of related party loans and transactions.

Corporate Governance

Governance Committee – promotes and enhances Board governance, community and member relations, and director development. The committee recommends to the Board an annual evaluation process for individual directors, the Board as a whole, committees, and the Board and committee chairs.

Human Resources Committee – ensures human resources' policies are in place, implemented, and maintained. The committee reviews and recommends policy and strategy with respect to employee salaries, benefits, and incentive compensation and succession planning for senior management. It engages an outside advisor to assist in the determination and approval of executive compensation and directs the annual evaluation process for CEO performance.

Investment and Loan Committee – ensures the soundness of the credit union's investment, lending, and capital policies and monitors management's compliance with the policies.

Nominations Committee – under the Rules of the credit union, operates independently of the Board to ensure there are qualified nominees recommended for election to fill all upcoming vacancies on the Board of Directors. The committee also oversees the election of directors to the Board. The committee reports directly to the members.

Information regarding Board and Committee meeting attendance is available on the credit union's corporate governance website at www.coastcapitalsavings.com or by calling 1.888.517.7000.

Performance Reviews

The Board of Directors undertakes an annual evaluation to determine the effectiveness of the Board's governance of the credit union and to review the performance of the CEO. The Board evaluation process looks for opportunities to improve the credit union's governance, including an evaluation of the Chair's performance.

This review process is based on the duties and responsibilities of the Board, individual directors, and the Board Chair as described in the respective mandates. Annually, the Governance Committee recommends to the Board a process for the evaluation. The 2008 evaluation was administered by an external governance consultant and involved the following elements:

- Structured, individual interviews were conducted by the consultant of directors and members of the Senior Executive that sought comments on the performance of the Board, the Board's committees, and the Board Chair.

- Peer evaluation questionnaires were completed by each director that rated the performance of individual directors based on the mandate for a director. The peer evaluation results were compiled by the consultant. Each director's results were compared with the average of all directors and provided to the director and the Board Chair. The Board Chair met privately with each director to discuss their peer evaluation results with a view to determining how the director could contribute more effectively to the Board.
- An in-depth governance review and de-briefing session on Board performance was held with the consultant, all directors, and the CEO. Board goals for the next 12 months were determined and responsibility for achieving each goal was assigned.
- The Board Chair and the consultant met with the Senior Executive to provide feedback and suggestions on optimizing the relationship between the Board and senior management.

The Board of Directors undertakes an annual detailed performance evaluation of the CEO. Each director completes a comprehensive evaluation of the effectiveness of the CEO's performance against the CEO's position description. Following Board discussion and analysis of the directors' findings, the Board Chair prepares a compilation of the Board's position on CEO performance, which includes an assessment of the company's performance against a series of Board-approved corporate objectives for the year. The Board Chair meets privately with the CEO to formally present and review the evaluation results and to set out expectations for the future.

More information regarding governance is available at www.coastcapitalsavings.com or by calling 1.888.517.7000.

Board of Directors*

Bill Wellburn, *Chair*
R.W. (Bob) Garnett, *Vice Chair*
Daniel Burns
Bill Cooke
Frank Harper

Mary Jordan
Karen Kesteloo
Gail Stephens
Doug Stone
Glenn Wong

Senior Executive*

Lloyd Craig
President & Chief Executive Officer

Sheila Baker
Chief Information Officer

Hermann Bessert
Chief Financial Officer

Mike Bushore
Chief Innovation Officer

Lawrie Ferguson
Senior Vice President, Marketing

Jay-Ann Fordy
Senior Vice President, Human Resources

Nancy McNeill
Senior Vice President, Administration

David Munson
Chief Credit Officer

Joel Rosenberg
Chief Operating Officer

Operating Executive

David Benson
Vice President, Commercial Real Estate Lending

David Gaskin
Vice President, Finance

Sheena Hanbury
Vice President, Retail Services

Herb Jamieson
Vice President, Retail Performance

Peter Kellett
Vice President, Information Technology

Norm Krannitz
Vice President, Treasury

Cyndie Kremyr
*Vice President, Corporate Affairs
and Corporate Secretary*

Ian Maguire
Vice President, Retail Services

Rod Marr
Senior Vice President, Commercial Services

Ron Pack
Vice President, Risk Management

Lynn Roberts
Vice President, Human Resources

Tony Williams
Vice President, Corporate Learning

* Full biographies of the Board of Directors and Senior Executive are available on www.coastcapitalsavings.com.

Corporate Information

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F: 604.517.7405

Island Administration Office

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F: 250.483.8108

Website

www.coastcapitalsavings.com

Auditors

KPMG LLP
Chartered Accountants
Box 10426
777 Dunsmuir Street
Vancouver, BC V7Y 1K3

Annual General Meeting

Wednesday, April 29, 2009 at 5 pm (PT)
Victoria Marriott Inner Harbour
728 Humboldt Street
Victoria, BC

The meeting will also be available by webcast
at www.coastcapitalsavings.com.

Note:

For our 2008 Citizenship Report, please go to www.coastcapitalsavings.com/community. A copy of the 2008 Community Highlights Brochure is available in branches or by calling 1.888.517.7000.

Eco-audit

This Annual Report was printed on recycled papers containing 100% post-consumer waste and saved the following:

| Trees | Energy in BTUs | Wastewater in litres | Greenhouse gases in kilograms | Solid waste in kilograms |
|-------|----------------|-------------------------|-------------------------------------|-----------------------------|
| 18 | 12,700,253 | 28,830 | 753 | 383 |



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