



# bridging the way

North Shore Credit Union / Annual Report 2008

steady





o p e n i n g   n o t e s

## Let every man praise the bridge that carries him over. – English proverb

As we come to the end of another tumultuous year for financial markets, North Shore Credit Union continues to serve as the bridge between our members' goals and accomplishments. You'll see visual representation of several bridge forms throughout this annual report, which we thought was an appropriate way to illustrate our role in the lives of our members and our communities.

Those who build bridges test how much weight can be supported and know how to position building materials to form the strongest structure. Over the last year, North Shore Credit Union held up extremely well under the weight of troubled financial markets, a serious credit crunch and a drop in consumer confidence. Our members have emerged well positioned for the future, thanks to expert financial advice regarding the structure of their investment and loan portfolios, banking and insurance products. Our communities are stronger and healthier because of our ongoing commitment – via time, expertise and funds – to supporting physical and mental, environmental and financial wellness wherever we live, work or play.

We invite you to explore this annual report to see where we've been and where we're going. North Shore Credit Union: your bridge to financial wellness.

flexible

CHRIS CATLIFF, President & CEO / SUE ADAMS, Chair, Board of Directors



executive message

## Message from the Board & Management

If you've read a newspaper or watched TV this year, you know we are in the midst of some very unusual financial circumstances. Just when we thought the sub-prime mortgage mess and the asset-backed commercial paper (ABCP) debacle were about to subside, September heralded a resurgence of the global crisis and the dissolution of several major players in the financial industry.

Through all of this, we are happy to say, North Shore Credit Union has fared very well and remains a strong, stable and well-managed institution. Our member deposits are safe here, our liquidity position is enviable, our capital is strong and we think you're very smart to continue your banking relationship with us!

As a financial cooperative, our capital base is privately held, consisting almost entirely of retained profits earned and saved over the past 68 years. This capital does not trade on a stock market or fluctuate in value. We are funded by a strong retail deposit base; we do not rely on the wholesale deposits and interbank lending that seized up and caused so much grief for many large institutions this year. While most publicly traded financial institutions have seen their capital bases decline dramatically, our relative strength has increased and our business model remains strong. We have now, and have always had, very prudent lending practices. Our loan delinquency rates remain low and our loan loss write-offs small. As well, we have the strongest liquidity position of our Peer Group (credit unions of similar asset size in B.C.) and we currently have 50% more capital on our books than the minimum regulatory requirement, which simply adds to our overall security.

Unlike many banks, we have not been driven to riskier investments. We are locally owned and controlled and do not participate in speculative international investments to inflate our returns and satisfy anxious shareholders who demand a high return on investment. Our processes are transparent and, since we didn't partake of the recent industry excesses, there is no impending downfall for us.

In October 2008, the Premier introduced legislation to increase credit union deposit insurance to an unlimited amount, and it became law in November 2008. Even though ours is a mature industry, and no deposits have ever been lost in a Canadian or U.S. credit union – ever – this was great news. We believe it will keep more money in our local economies, freeing up capital for local investment and giving our members peace of mind.



## executive message continued

Amidst ongoing credit turmoil, we are anticipating a lower budget for 2009 and we are cognizant of challenges beyond our control that will persist over the coming year.

One of the things we can control is our strong focus on Corporate Social Responsibility, which we know is important to both our members and our employees. (Many of our employees tell us it's one of the reasons why they joined NSCU.) Some of the things we've worked on over the last year include: progress toward replacement of paper files with electronic files; continued reduction of paper consumption – 17% over the last two years; incorporating green building practices in all of our new and renovated branches; continued support of the NSCU Environmental Learning Centre at the Outdoor School in Squamish, scheduled to open in 2010; and corporate sponsorship of Earth Day, the Coho Festival, North Shore Rescue, North Shore Recycling, and Family Services of the North Shore, to name a few.

We also focus great energy on our employees, and that is reflected in our highest-ever employee engagement score in 2008, which was celebrated company wide. We put great effort into improving recruiting, onboarding and orientation for new employees, training and development, performance management, and communication. Mid-year, we launched a mentoring program to enhance leadership competencies and improve both coaching and personal development. More than 45 employees (15% of our staff) were either promoted or took on significant job changes within the year and many took the initiative to earn professional designations in their area of expertise.

What lies in our future? Our vision is clearly defined. It focuses on providing expert financial advice to our members; increasing our own knowledge, capabilities and professionalism; offering five-star hospitality service through our branch network; maintaining and expanding our financial strength and stability; and ensuring that we are always easy to do business with.

Almost 90% of our employees consider NSCU “more than just a place to work.” We think that is outstanding. We can only hope that as many of our members think of NSCU as “more than just a place to bank.”

Thank you for your continuing support.

CHRIS CATLIFF, President & CEO  
SUE ADAMS, Chair, Board of Directors

focused



# connected

## Year in Review: Community & Corporate

We know it takes more than a good-looking balance sheet to make a great credit union. In 2008, we maintained our ongoing commitment to all the communities we serve, and took pride in making a clear and positive difference in a variety of ways.



## year in review

Early in the year, registrants from as far away as the U.K., Yukon Territory, Virginia and Hawaii raced for the 800 available spots in the 12th running of the North Shore Credit Union Test of Metal in Squamish, making it one of the most successful mountain bike races in North America.

At the Canadian Marketing Association of Credit Unions (MACU) annual conference in Whistler, awards were given for excellence in credit union marketing. With more than 155 entries from credit unions of all sizes across Canada, NSCU received a gold and two silvers for brochures, direct mail campaigns and our annual report. Soon after, NSCU received CDC Software's 2008 Excellence in Customer Service Award. This reflects the leading-edge work we do with segmentation, member retention and knowledge of our members.

Early in the summer, a group of our employees issued a challenge to all of NSCU: raise money for local food banks at a time when they need it most! We raised a total of \$6,450, which was split amongst the Harvest Project and Greater Vancouver, Squamish and Whistler Food Banks. Realizing that every \$1 donated has the purchasing power of \$3 made the effort that much more rewarding.

The 11th annual NSCU Charitable Golf Tournament in support of North Shore Rescue raised over \$46,000 – the most ever. Since its inception in 1997, this tournament has raised \$350,000 in cash and in-kind donations to support North Shore Rescue, making NSCU their largest single fund-raiser. North Shore Credit Union also co-presented the 2008 Sea to Sky Golf Tournament, which raised more than \$10,000 for the newly opened Pemberton Child Care Centre. The Centre, which opened earlier in the year thanks to a cash donation and a discounted loan from NSCU, provides much-needed child care for working families in the community.

In keeping with our CSR philosophy (and good common sense), NSCU decided to move away from internal and external use of bottled water. News stories about

potential health hazards associated with drinking from plastic bottles, as well as the issue of tons of bottles ending up in landfills, expedited that choice. On the heels of that decision, NSCU's Technology team partnered with not-for-profit Electronic Recycling Association (ERA) to recycle our old electronic equipment (computers, monitors, printers, network switches, etc.); we hope to expand the program so that employees can recycle their old personal electronic equipment.

In November, Capilano University held its first-ever President's Service Awards, recognizing citizens, groups and organizations that have helped to further Cap U's mission of enabling student success. North Shore Credit Union, the only financial institution to receive the Award, is the major sponsor of Creating Connections, a networking event organized by University students to connect with members of the business community.

We continued successful partnerships in 2008 with the North Vancouver Recreation Commission, North Shore Recycling, Coho Society, North Vancouver and Squamish Chambers of Commerce, Family Services of the North Shore and North Shore Athletics, to name a few.

As an Imagine Caring Company, NSCU commits to give a minimum of 1% of pre-tax profits to charitable organizations, and in 2008 we supported more than 50 deserving groups and projects. As well, we actively encourage our staff to volunteer. For each employee who volunteers at least 40 hours per year, we make a donation to the charity of their choice and enter them into a draw for one week of paid vacation.

In our most recent employee opinion survey, 95% of our staff responded favourably to, "I believe that North Shore Credit Union is a valuable and contributing member of our community." We think that is fantastic, and we are working to ensure that both our employees and our communities continue to reap the benefits of our support and commitment.

strong



covered pedestrian bridge, whistler village, whistler

## Financial Analysis & Discussion

### Overview

The year was characterized by severe financial, housing and stock market disruption and correction, both globally and domestically. Despite these adverse conditions, strong results were once again achieved by North Shore Credit Union.

Net Operating Income for the year ending December 31, 2008, was \$8.97 million, compared with \$7.34 million for 2007. This represented a Return on Average Assets (ROAA) of 66 basis points and a Return on Retained Earnings (RORE) of 12.86%, as against 54 basis points and 11.0% respectively in 2007. Credit conditions remained tight throughout the year and liquidity preservation became an increasing focus for most financial institutions. A highly successful fall deposit campaign increased core liquidity for NSCU and allowed balance sheet leverage to be reduced significantly.

Financial margin pressure continued as expected. Persistently high cost of funds, together with falling yields on prime-related loans, combined to squeeze spreads. Other income was favourably impacted by the gain on sale of North Shore Insurance Services Ltd. as well as the valuation of the retained interest in securitized loans. Offsetting this was a large provision for potential future loan losses. Assets grew to \$1.41 billion on balance sheet, from \$1.31 billion in 2007, while assets under administration eased back to \$1.99 billion from last year's \$2.01 billion. Off-balance sheet wealth management investments were the primary cause of this drop, reflecting lower stock market prices at year-end.

### Net Interest Income, Other Income & Non-Interest Expenses

Net Interest Income (financial margin) was adversely impacted by rapidly falling interest rates as prime-related mortgage yields slumped in advance of the drop in funding costs. Financial margin remained relatively unchanged at \$32.4 million in 2008, compared with \$32.3 million in 2007.

Other Income rose to \$18.3 million, \$4.4 million above 2007 year-end. Major contributions came from the gain on sale of North Shore Insurance Services Ltd. and the change in value of retained interest in securitized mortgages, following the required accounting treatment for retained interest in off-balance sheet securitized mortgages in terms of GAAP (Generally Accepted Accounting Principles of the Canadian Institute of Chartered Accountants).

Non-Interest Expenses were well contained during the year. At year-end it was deemed appropriate to increase the reserve for potential loan losses in light of current and foreseeable housing and construction market conditions. This caused the rise in overall costs compared to 2007.

### Balance Sheet Changes

Continued improvement in liquidity was achieved in 2008. While still meeting the needs of our "relationship" members, lending was managed at a slower pace. This, together with improved deposit growth, particularly in the latter part of the year, enabled NSCU to reduce borrowings well below last year's level. North Shore Credit Union's strong liquidity position will give us adequate capacity to confidently address funding demands by members in the coming year.

The recently legislated 100% member deposit guarantee by the B.C. Provincial Government is also expected to favourably position credit unions for retaining and growing their deposit bases. Member equity advanced again in 2008 as a result of retained earnings, and now totals \$85.1 million. Regulatory capital, at 11.7%, significantly exceeds the required level of 8%. The Credit Union continues to be financially solid, with excess capital and strong liquidity.

BILL KEEN, Vice President, Finance & Chief Financial Officer



message from the auditor

## Message to Members

The accompanying condensed consolidated financial statements have been prepared from the consolidated balance sheet of North Shore Credit Union as at December 31, 2008, the consolidated statement of income and comprehensive income and the consolidated statement of changes in members' equity for the year then ended. Readers are cautioned that these condensed financial statements do not include all the disclosures necessary for complete and fair presentation. Complete audited financial statements for the year ended December 31, 2008, together with the auditors' report thereon, are available from the Credit Union and will be presented at the annual general meeting of members on April 15, 2009.

## Auditors' Report on Condensed Financial Statements

### To the Members of North Shore Credit Union:

The accompanying condensed consolidated balance sheet and statement of income and retained earnings are derived from the complete consolidated financial statements of North Shore Credit Union as at December 31, 2008, and, for the year that then ended, on which we expressed an opinion without reservation in our report dated February 5, 2009.

The fair summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of the Canadian Institute of Chartered Accountants, is to report on the condensed financial statements.

In our opinion, the accompanying condensed consolidated financial statements fairly summarize, in all material respects, the related complete financial statements from which they have been derived, in accordance with the criteria described in the Guideline referred to above.

These condensed financial statements do not contain all of the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the Credit Union's financial position, results of operations and cash flows, reference should be made to the related complete financial statements.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, cursive script.

PricewaterhouseCoopers Chartered Accountants Vancouver, British Columbia February 5, 2009

*Please note: Copies of the full audited financial statements are available at all North Shore Credit Union locations or online at [www.nscu.com](http://www.nscu.com)*

## Condensed Consolidated Balance Sheet as at December 31, 2008

(in thousands of dollars)

	2008		2007	
<b>ASSETS</b>				
Cash & Cash Resources		28,652		30,143
Other Investments		113,337		113,718
Loans		1,206,738		1,141,900
Premises & Equipment		25,951		24,568
Future Income Taxes				577
Other Assets and Swaps		30,393		3,822
		<b>\$1,405,071</b>		<b>\$1,314,728</b>
<b>LIABILITIES &amp; MEMBERS' EQUITY</b>				
Deposits:				
Demand	292,625		226,690	
Term	965,274		944,596	
Preferred Equity Shares	3,297	1,261,196	4,969	1,176,255
Other Liabilities		50,079		60,322
Future Income Taxes		662		
Members' Equity:				
Retained Earnings	74,494		67,306	
Equity Shares	10,655	85,149	10,870	78,176
Accumulated Other Comprehensive Income (Loss)		7,985		(25)
		<b>1,405,071</b>		<b>1,314,728</b>
<b>Total Assets under Administration</b>		<b>\$1,986,747</b>		<b>\$2,015,732</b>

## Condensed Consolidated Statement of Income & Retained Earnings for the year ended December 31, 2008

(in thousands of dollars)

	2008	2007
Interest Income	74,226	74,728
Interest Expense	41,809	42,396
<b>Net Interest Income</b>	<b>32,417</b>	<b>32,332</b>
Other Income	18,349	13,926
	<b>50,766</b>	<b>46,258</b>
Non-Interest Expenses	38,948	38,217
Provision for Credit Losses	2,850	700
<b>Net Operating Income</b>	<b>8,968</b>	<b>7,341</b>
Dividends on Membership Equity Shares	37	58
Donations	90	73
Provision for Income Taxes	1,378	1,324
<b>Net Income for the Year</b>	<b>7,463</b>	<b>5,886</b>
Retained Earnings – Beginning of Year	67,306	61,862
Dividends on Equity Shares – Net of Tax	(275)	(442)
<b>Retained Earnings – End of Year</b>	<b>\$74,494</b>	<b>\$67,306</b>

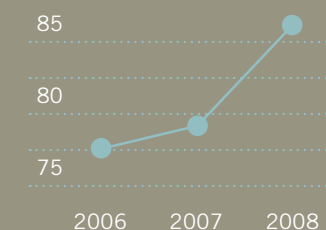
## Net Operating Income

(in millions of dollars)



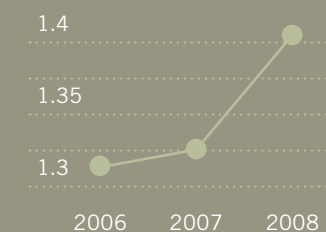
## Capital

(in millions of dollars)



## Assets

(in billions of dollars)



SUE ADAMS, Chair  
ROGER BRAIN, Vice Chair



confident



i n c l o s i n g

## Heading into 2009

What does it take to “bridge the way” for our members, to set them firmly on the path to financial wellness? We believe it’s a combination of meaningful and mutually beneficial relationships, expert financial advice, and proactive service delivery. Through our branch network, our Call Centre team, our head office employees and our virtual Web presence, we endeavour to provide five-star service to our valued members so that they are confident in the advice they receive and the results they achieve.

Our connections to the communities we serve – North and West Vancouver, Burnaby, Squamish, Whistler, Pemberton and Vancouver – grow stronger every year. We remain committed to providing time, expertise and funds to a variety of groups and projects that do our communities proud. It is our absolute pleasure to help wherever we can so that many of you can make a difference in the neighbourhoods where you live, work and play.

The success of our Credit Union, our members, and our communities is a source of great pride for all who work here. We look forward to the coming year with confidence and blue-sky optimism. Thank you for your continued support.

**BUSINESS CENTRE**

203-1111 Lonsdale Avenue  
North Vancouver, BC V7M 2H3

**NSCU BRANCHES**

**Vancouver**

110-1100 Melville Street

**Burnaby**

4403 Hastings Street

**North Vancouver**

3059 Edgemont Boulevard  
1100 Lonsdale Avenue  
110-1200 Lynn Valley Road  
1080 Marine Drive  
3680 Mt. Seymour Parkway

**West Vancouver**

815 Main Street, The Village at Park Royal

**Pemberton**

2-7438 Prospect Street

**Whistler**

101-4321 Village Gate Boulevard  
7003 Nesters Road

**Squamish**

102-40147 Glenalder Place

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**Roger Brain**

**Barbara Ciarniello**

**Dave Davenport**

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Vice President, Human Resources & Communications

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Vice President, Finance & Chief Financial Officer

**Reg Marrinier**

Vice President, Retail Banking

**Doug Smith**

Vice President, Corporate Affairs

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\*denotes Chair of Board

