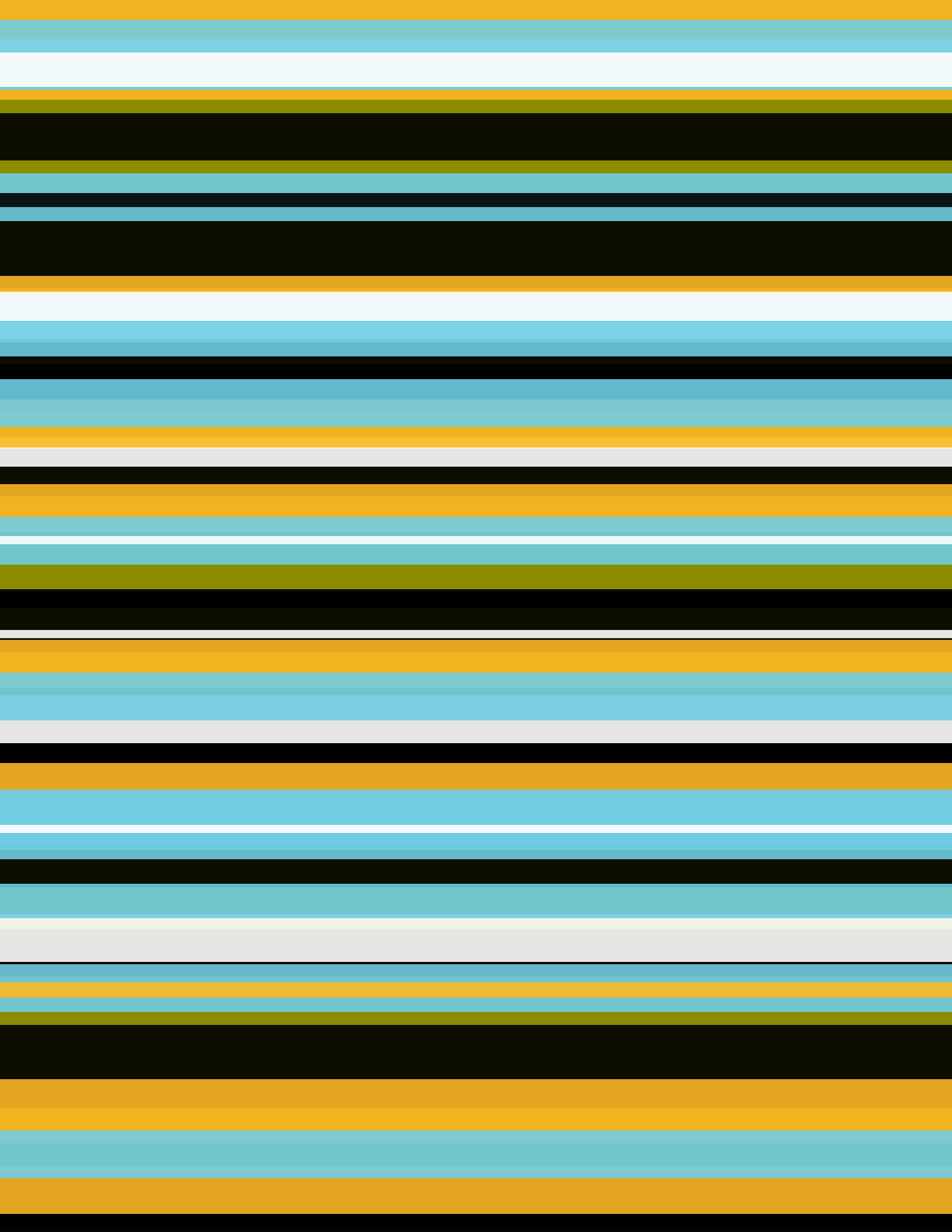
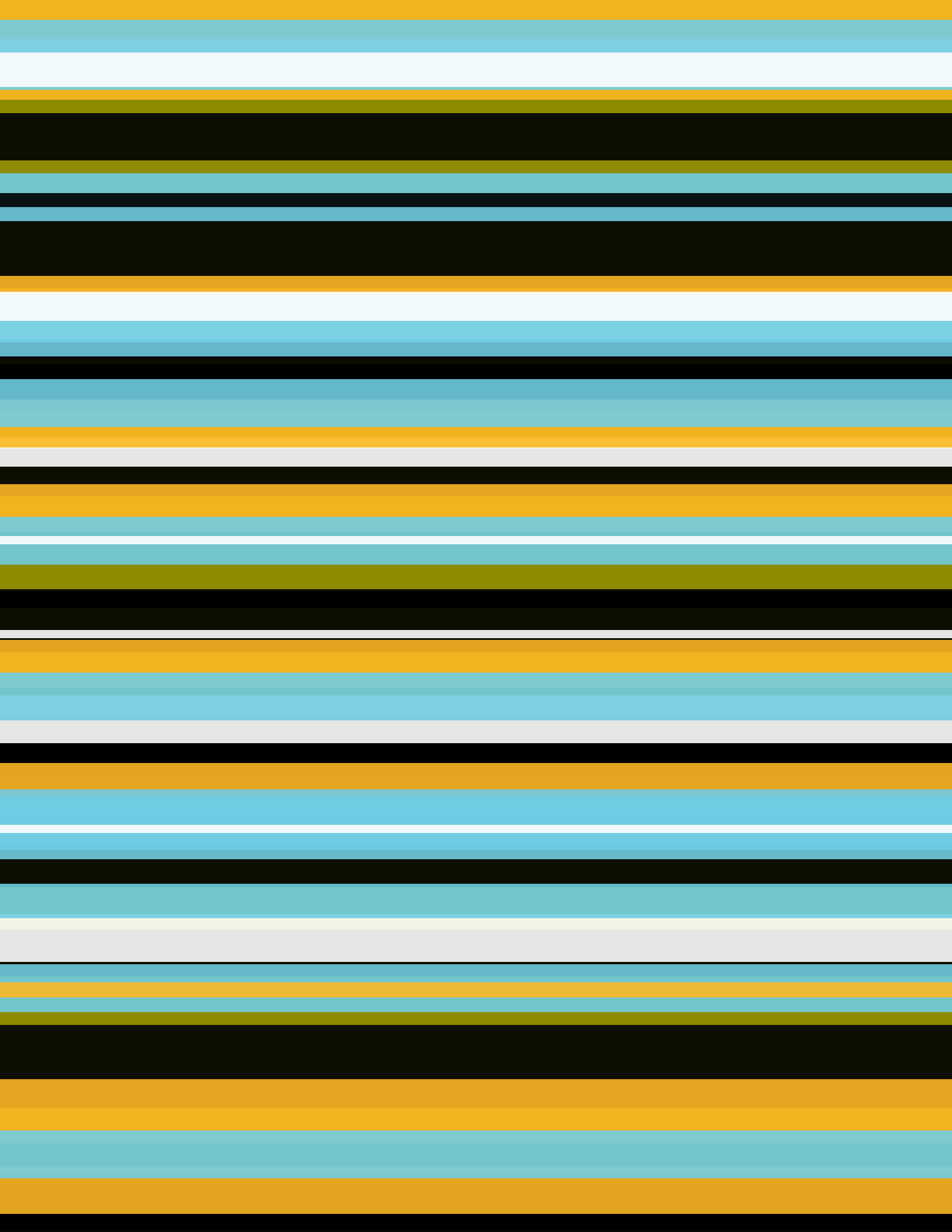


VISION
for value
and growth



annual report 2008





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On July 1, 2008, the long-planned merger of Credit Union Central of British Columbia and Credit Union Central of Ontario Limited was completed, with the two organizations combining as **Central 1 Credit Union (Central)**. This pioneering venture, the first to combine the operations of two provincial centrals, is a milestone that sets the stage for further consolidation within Canada's credit union system. ¶ From the 1940s onward, both partners have been dedicated to delivery of liquidity management, payments processing and trade associational services to credit unions in their respective provinces. Today, following the merger, these and other functions are performed more efficiently and advantageously by a single service organization. With streamlined decision-making, greater financial leverage and a broader scale of operations, Central is committed to maximizing value and growth opportunities for the nearly 200 independent credit unions it serves in British Columbia and Ontario.

This Annual Report focuses on Central's progress from the mid-year merger to year-end 2008, a period that coincided with worldwide economic upheaval. Despite challenging conditions, Central achieved or exceeded all of its financial and strategic targets, demonstrating the positive initial impact of the merger, as well as the benefits that can be expected in future years with fully integrated operations. ¶ Our narrative deals with Central's strategy as a catalyst for transformation and development. We present the goals expressed in Central's corporate vision, mission and values statements as building blocks that anchor and guide our strategic priorities and initiatives. Specific accomplishments that illustrate the strengths of the combined organization and the talents of our people are showcased as examples of Central's record in fulfilling — and often surpassing — member expectations during one of the most difficult years in the history of the financial industry.

For the credit union systems of British Columbia and Ontario, July 1, 2008 will be remembered as the day that their central organizations joined forces under the banner of Central 1 Credit Union. ¶ Our merger was unprecedented in the evolution of the Canadian credit union system, the first such combination of provincial central credit unions. ¶ Bringing together our two organizations had been the overriding priority of the boards of each central since our intention to unite was announced in October 2006. So it was most gratifying to see our intention become a reality, particularly in view of the obstacles presented by the challenging financial markets that had emerged in the meantime. ¶ With the combination, Central's 16-member Board is now drawn from two provinces. Joining the 11 Directors of Credit Union Central of British Columbia were five Directors elected at large by our Ontario membership.



Daniel A. Burns
Chairperson

Today, our Board of Directors represents nearly 200 credit unions, a big step forward in streamlining decision-making in the Canadian credit union system. ¶ Our first order of business was to set a new strategic direction. That started with a clear vision: **Relentless pursuit of value and growth, in partnership with credit unions — every day!** ¶ From that, we developed a mission statement and a strategic plan, including critical success factors and performance indicators, which are illustrated in this Annual Report. ¶ While our integration work continued at year-end, Central has been diligent in maintaining the quality of service that its member credit unions have come to expect, while focusing on achieving our strategic objectives. ¶ Central performed well in a difficult financial environment, and the Board was pleased to declare dividends at our policy rate of twice the average 90-day Treasury Bill rate. A dividend at an annualized rate of 5.76 percent for the first half of the year was paid to members of Central during that period; a dividend at an annualized rate of 4.13 percent was declared for the second half, covering the period following our combination. ¶ **The turmoil in global markets that erupted later in the year was felt throughout an increasingly inter-connected financial world. Central showed its leadership as liquidity manager for its members, making use of the expanded facilities offered by federal government agencies and encouraging prudent lending practices to address the system’s liquidity requirements.** ¶ Our deliberations during 2008 covered a range of measures aimed at enhancing the competitiveness of credit unions in serving both retail consumers and business operators. ¶ We also recommended that member credit unions continue their support of the Canadian Business Owner Strategy, as an effective method of increasing their market share among small and medium-size enterprises. ¶ It has long been a priority to maintain close relations with government, to ensure that the vital economic role of credit unions in their local communities is well understood by both elected representatives and our public service. The depth of that understanding was well illustrated by the British Columbia government’s decision to provide unlimited deposit insurance for the deposits with and non-equity shares issued by the province’s credit unions. ¶ **That decision, effective October 22, capped a remarkable year for Central, one that will stand for decades as a turning point in the credit union system’s development. Our vision to strengthen and streamline the system’s second tier of central organizations through consolidation has been mirrored by two like initiatives, as the Prairie and Atlantic centrals consider their own amalgamations. The Board of Directors of Central wishes them well in their endeavours.** ¶ The year also saw Don Rolfe assume the position of President and Chief Executive Officer on February 15. We thank Don for his leadership in guiding Central through the uncharted waters of the combination, and we thank management and staff for their extra efforts as Central expanded to a multi-site operation separated by three time zones. ¶ As our vision states, the essential role of Central is to create value for our members and promote their growth. We thank our member credit unions for their support of our vision and their confidence in Central’s Board as we pursue those aims, relentlessly.


A sharp focus on our key strategic priorities guided Central 1 Credit Union through a successful year, under circumstances that were far from typical. On the one hand, we faced the challenges that can be expected when integrating two organizations. But this was compounded by the unanticipated turmoil in the world's financial markets, which tested our responsiveness to fast-changing conditions. ¶ Our priorities were clear – complete the merger of the B.C. and Ontario centrals, quickly develop a strategic plan, devise an effective organizational structure, set a comprehensive integration process into motion, build upon the existing relationships with regulators and strategic partners, and do so without losing sight of our financial and operational objectives. ¶ A new organizational structure was ready for Day 1, one that merged the strengths of the two centrals. In devising it, my aim was to build a framework that is flexible, promotes coordination among different functions, provides an effective span of control for each executive, creates a vibrant workplace that encourages staff engagement and – most important – ensures that our customers get the attention they deserve from each business unit. ¶ But structure by itself accomplishes nothing. It is people who give it life. So my deliberations focused as much on people as on boxes on an organizational chart. ¶ To work with me in pursuing the vision of Central 1, I selected an executive team drawn from the two founding centrals and elsewhere in the credit union system. I'm confident that their talent, experience and leadership will serve us well through the next steps in our evolution. ¶ The new executive team and I worked closely with the Board of Directors to create an effective strategic plan, with a freshly stated vision and mission to guide the organization. Explicit critical success factors were established to focus management and staff on the priorities to fulfill the mission, along with key performance indicators that are directly linked to financial and operational objectives. ¶ **To tackle the numerous and diverse tasks involved in integrating the two centrals, we took a coordinated approach to managing the process, which involves more than 80 distinct projects. This work is key to our future success and is overseen by a steering committee consisting of two senior executives and myself.** ¶ All of our efforts to integrate the two organizations are premised on building a solid foundation that will enhance our effectiveness and support future growth. Among the chief priorities are the integration of core back-office systems to boost efficiency and provide a scalable platform for growth. ¶ On the organizational front, we were quick to integrate the critical business functions at the two workplaces, with both the treasury and payments operations reorganized within months of the combination. ¶ A guiding principle of the integration process is that quality of service to our members will be maintained throughout. I'm pleased to report that we not only achieved that objective, but were able to deliver new value and expanded services to members and customers. ¶ As detailed elsewhere in this report, these included the provision of paper-

based and electronic clearing services to Atlantic credit unions, national leadership in preparing for the new Tax-Free Savings Account product and making enhancements to our *MemberDirect*® online services, through the addition of mobile banking and new inter-account transfer features. ¶ On top of these efforts, we faced the challenges of unprecedented market turmoil and a rapidly deteriorating economic climate. Our first priority was to continue providing sound financial stewardship to ensure the system's liquidity needs were met, a role that Central performed strongly. Beyond that, we supported credit unions throughout the turbulence, with the aim of maintaining member confidence in the system, drawing on our expertise in government relations, marketing and communications. ¶ The merger, integration and the year's financial and economic conditions placed unusual demands upon us. Despite this, Central met all of its operational objectives and performed well on the financial front, with net income approaching \$30 million. And I was particularly pleased that a survey of staff showed that employee engagement was maintained at the prior year's level. ¶ On a personal note, this was my first year with Central, and that represents a challenge in itself, quite aside from the unusual conditions. I'd like to thank the Board of Directors, my executive team and all of Central's management and staff for making that transition easier for me, and allowing me to focus on the top priorities while the essential day-to-day work was carried out to a high standard across the organization. ¶ Ultimately, our success will be measured by its impact in helping credit unions meet the needs of their members in a competitive marketplace for financial services. I look forward to working with all of our member credit unions to ensure that their central service organization fulfills its mission of creating value and supporting growth.




Donald J. Rolfe
President and Chief Executive Officer

WISS

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relentless pursuit of value and growth, in
partnership with credit unions — every day!



Central 1 will be the preferred partner of credit unions, providing financial stewardship, fair value and competitive advantage. ¶ We will achieve our mission by being the preferred partner of credit unions requiring excellent products and services that demonstrate fair value and competitive advantage, and will consistently strive to exceed member expectations. We will demonstrate financial stewardship in managing assets and providing liquidity support to prudent and effective standards. ¶ A high performing team will deliver innovative solutions, leading-edge operational and technical support, and exceptional relationship management, guided by our principles and values. ¶ We will attract partners to Central 1. We will achieve above-average financial returns, and effective governance for the benefit of our members, staff, and other stakeholders.





- Integrity** We are true to our values; we act in a forthright manner and engender trust.
- Respect** We respect ourselves and others; we care about the organization, our colleagues and our members.
- Accountability** We take responsibility for our actions; we honour our commitments.
- Leadership** We are confident in our knowledge and insightful in the trends of our industry; we communicate, inspire and enable shared success.
- Cooperation** We value partnership; we listen, learn and collaborate.
- Innovation** We are entrepreneurial and offer creative solutions within regulatory boundaries; we evolve and advance for the benefit of our members.

CRITICAL SUCCESS FACTORS

KEY PERFORMANCE INDICATORS

Central evaluates its performance through achievements in the following areas:

These are the criteria by which Central measures each critical success factor:

Business Development

Broader range of products and services with clear segment-specific value propositions, delivered cost effectively to support member needs and the Central 1 brand.

Market penetration
Brand awareness
Revenue (by business line, segment, product, client)
Product ROI

Service Quality

Consistently meet or exceed credit union and partner service expectations with reliable and responsive service aligned to their needs.

Customer loyalty
Customer satisfaction
Internal client satisfaction

Partner Relationships

Strong relationships with credit unions, key business partners, and regulators to influence positive outcomes.

Customer loyalty
Regulator confidence
Central 1 image/brand awareness
Revenue growth
Partnership Growth

Technical and Business Processes

Highly effective business processes supported by integrated technology platforms and processes that make it easy for members to do business with us.

Competitive technology
Client satisfaction
Successful delivery of roadmap projects
Productivity ratio

Financial and Risk Management

Provide sound financial management to ensure system liquidity and manage returns within established risk parameters.

ROE
Margin
Net profit by line of business
Net Income
ERM dashboard

Financial value to credit unions
Capital to risk-weighted assets
Borrowing multiple

People and Infrastructure

Strong leadership and teamwork in a high-performing accountability culture, supported with the knowledge, skills and tools to effectively do our work.

Employee engagement
Culture measure
Leadership capability

member engagement

partnership growth

return on equity

revenue growth

net income

product return on investment

productivity ratio

employee engagement

brand awareness

The process of building Central 1 Credit Union (Central)

has coalesced under a far-sighted strategy for integrating the two founding centrals in British Columbia and Ontario into a single, cohesive organization with the service capacity and management depth to meet the current and future needs of nearly 200 credit unions in both provinces. Together, our shareholder credit unions, which we refer to as “the system”, serve over 2.9 million members through 835 branches and, at year-end 2008, had assets exceeding \$65 billion.

The adoption of Central’s Strategic Plan, soon after completion of the merger, was a critical milestone in our 2008 achievements. From the start, the plan provided guidance and motivation for Central’s newly integrated staff by defining operating goals, priorities and objectives,

along with precise indicators to measure performance.

Central's vision, mission, critical success factors and key performance indicators are graphically illustrated earlier in this report to highlight the various building blocks of our strategy. All elements derive from the Vision Statement, which is the cornerstone of Central's operating philosophy: *relentless pursuit of value and growth in partnership with credit unions — every day!*

From this vision, Central developed other layers of the plan. The Mission Statement, which defines our business and performance goals, led, in turn, to identifying the six factors considered to be critical to

success — business development, service quality, partner relationships, technical and business processes, financial and risk management, people and infrastructure. Each of these was translated into well-defined strategic objectives to be pursued in the year ahead.

Central's accomplishments in 2008 illustrate the success of the Strategic Plan in directing resources toward the pursuit of value and growth for the system. The record shows that Central has emerged as a strong, forward-looking organization, capable of leading our members and partners to new levels of productivity — while, at the same time, providing calm, competent stewardship in a time of economic crisis.

**PROACTIVE STRATEGY
PROMOTES SYSTEM
STABILITY**

Given the market conditions we faced in 2008, Central took a deliberately proactive approach to its primary responsibility for liquidity management. It's gratifying to report that our year-end results show the strategies we employed were effective. Not only did Central perform strongly as manager of its own financial resources, but our stewardship ensured that the credit unions we serve had consistent access to funding to meet the loan demands of their members.

We employed a variety of tools in our strategy, including expanding access to the Canada Mortgage Bond Program and working with member credit unions to adjust lending activities to more closely match system funding capacity. We also broadened access to liquidity through various new funding facilities offered by the Bank of Canada and Canada Mortgage and Housing Corporation to financial market participants.

I should emphasize that our success in providing the level of stability the system required involved more than expertise in liquidity management. We had major contributions from Central's personnel in government relations, marketing and communications – and, most importantly, unswerving support and cooperation from our member credit unions.

It was a strong start for Central, and a showcase for the advantages of team integration.

– *Charles Milne,*
Vice-President, Treasury and Funding Services

With increasing turmoil in the markets during the course of the year, Central's leadership in financial management was in the spotlight. Given the credit squeeze, our priority was to maintain the system's liquidity and lending capacity, which required a prudent, but proactive, approach to investment activity and strategy. Central's performance in this role is a prime example of how we deliver value. We ensured system liquidity through judicious use of expanded facilities offered by external funding sources – and supported our strategy with intensive communications that enhanced confidence within the credit union community at all levels.

Central continued to contribute leadership and expertise in efforts to manage the financial crisis, with our Chief Operating Officer representing Central, Saskatchewan Central and Credit Union Central of Canada (CUCC) in the restructuring of third-party asset-backed commercial paper through the “Montreal Accord” of the Pan-Canadian Investors Committee. In addition

to these key activities, Central’s financial management team continued to pursue business and partnership opportunities, such as those achieved in our ongoing contract to provide treasury services to Newfoundland & Labrador Credit Union.

Meanwhile, Central’s government relations team helped set the stage for a regulatory milestone that promises to strengthen the financial position of credit unions in British Columbia. In 2008, the provincial government moved to provide unlimited deposit insurance for B.C. credit unions. This significant competitive benefit is expected to generate increased public awareness and growth in member deposits.

The year saw the first commercial paper ratings of the merged organization by independent credit rating agencies, with Standard & Poor's and Dominion Bond Rating Service both confirming the ratings for short-term, long-term and subordinated debt that had previously been awarded to Credit Union Central of British Columbia.

MORE INNOVATION FROM *MemberDirect* ONLINE SERVICES

Business development is a critical goal in Central's technology operations. We're continually building and refining our *MemberDirect* product line to boost market opportunities for credit unions, as well as to generate revenues for Central. Over the past seven years, we have become the number one supplier of web banking services to Canada's credit unions. And the streamlining that's occurring with post-merger integration will allow us to concentrate even more resources on developing market-competitive products.

In 2008, we launched three new services under the *MemberDirect* umbrella. Mobile Banking, in particular, is proving to be an important new line of business for Central. Through the efforts of our product development team, credit unions became the first financial institutions in Canada to feature mobile banking via SMS Text Messaging — and, by year - end, the service was accessible to over 90 percent of credit union members in British Columbia. Central raised awareness of the product with a successful media campaign in B.C. We also added value to our menu with the introduction of Inter-Institution – or “Me-to-Me” – transfers and a convenient *Interac* Email Money Transfer service.

Technology plays a primary role in developing business with external clients. In 2008, we celebrated a major win with a contract from a large Canadian retailer to develop and manage a new website for its 4 million credit card holders, using *MemberDirect* software. This is Central's largest external contract to date – and an indicator of our prospects for the future.

— Oscar van der Meer
Chief Technology & Payments Officer

Business development is a critical focus for all of Central's operating units. We target multiple objectives to enhance value and economy for our core credit union clients and increase customer satisfaction with our range of products and services. High-profile achievements in new business development often originate with Central's technology operations as a result of continuous research and development, coupled with commitment to innovation. Ongoing expansion of the products offered through our proprietary *MemberDirect*[®] web banking service provides growth opportunities for our client base as well as increased revenue for Central. *MemberDirect* Services, which now commands 80 percent of the Canadian credit union market, has also developed an enviable record as a provider to external clients.

In 2008, after pilot testing in co-operation with several B.C. credit unions, we introduced an advanced version of mobile banking and two innovative money transfer services, as part of the *MemberDirect* package. All received

enthusiastic uptake in the credit union market. And, a landmark contract for website development from one of Canada's largest national retailers established a new benchmark in external business development.

Integration of business functions, systems, services and people was a top priority in 2008. We took a coordinated approach to the range of activities involved in integration, concentrating on building a foundation to support system growth, while maintaining quality and enhancing the value of the services we deliver.

Even before our merger, the centrals in British Columbia and Ontario were working together to provide efficient, economical clearing services to credit unions in the Atlantic provinces through their respective centrals. Now, in our post-merger environment, I think it's accurate to describe the Atlantic clearing project as an example of how we used teamwork and entrepreneurialism to achieve strategic goals in both business development and partner relationships.

Our project began in 2007, when the Atlantic centrals were seeking an alternative to their existing supplier and required a cost-efficient service provider, capable of supporting their needs and those of their member credit unions for cheque and AFT clearing. We were able to meet those requirements in 2008 through a collaboration in which Ontario provided clearing for paper based items, while B.C. handled AFT transactions. Our approach demonstrated the benefits of doing business with Central and the positive impact of integration by making maximum use of payments expertise and capabilities in both provinces. As a result of this project, we increased internal revenue while delivering exceptional value and economy to the Atlantic centrals and their members.

This arrangement with our Atlantic counterparts marks the first time in history that all centrals in Canada are processing and clearing payments items under the national system umbrella. I see it as a major step forward in credit union service consolidation – and a strong indication of what Central 1 can accomplish in the future.

*Susan McNulty,
Vice-President, Policy & Strategy*

Among the first operations to be reorganized were Central's payments services. In this critical function, the stage was set prior to the merger, when the two founding centrals had joined in an interprovincial alliance to serve the needs of their counterparts in Atlantic Canada.

Streamlined under the framework of the merger, Central's payments team is setting new performance standards by maximizing the capabilities of personnel in both provinces. Targeting critical goals in business development, service quality, partner relationships and technology, Central's payments operations exemplify the benefits of integration, and serve as a model for system-wide service consolidation.

In the competitive arena in which credit unions operate, cooperative effort is also essential in product delivery and marketing. In 2008, Central's financial services team took the lead in coordinating a national initiative to lay the groundwork for offering the new Tax Free Savings Account (TFSA) by credit unions across Canada. As a result of his leadership role with CUCC's TFSA Task Force and in other promotional and training projects, Central's Manager, Financial Services is recognized nationally as the credit union expert in all aspects of this important personal savings vehicle. Through the contributions of the manager and his dedicated team, Canada's credit unions have the tools to make it easy and convenient for members to open these accounts based on solid knowledge of the product.

NATIONAL LEADERSHIP IN NEW PRODUCT LAUNCH

Central was off to a strong start following the merger, often surpassing performance goals in pursuit of value and growth for member credit unions. Fully focused on the needs of the system, we provided structure, service and stability through a period of unprecedented challenges. With ongoing integration, we are positioned to offer increasingly powerful support as we move with our members into the future.

In preparing for the launch of the new Tax Free Savings Account (TFSA), Central's Financial Services team had the opportunity to provide leadership and promotional support, as well as financial value, to our members.

I represented Central on the national *ad hoc* TFSA Task Force, formed by Credit Union Central of Canada (CUCC) to research the product and raise awareness within the system prior to its introduction in the 2008 Federal Budget. We used a variety of media to deliver the message, including presentation of six live national webinars to capacity credit union audiences. That webinar is now hosted on the CUSOURCE website, where we also contributed to online TFSA training for front-line employees.

Our team created a TFSA leaflet for national distribution, which credit unions purchased in volume through CUCC and is now in its second printing. We produced a comprehensive brochure for retail consumers — *Understanding the TFSA: Your Guide to Tax-Free Savings Accounts*. After its initial uptake by credit unions in B.C., we required a second run to fill orders from across Canada.

As trustee of registered plans for our members in B.C., Central developed the administrative framework for offering credit union TFSAs in the province. Our TFSA program provides credit unions in British Columbia three options for participation and, at year-end, we had signed agreements with nearly 90 percent of our members.

Current legislation doesn't allow Central to provide trustee services in Ontario. But the national coordination we saw in this effort shows that consolidation of product delivery is a sign of the system's future

*Bob Perfonic,
Manager, Financial Services*

