

## SYSTEM OFF TO A STRONG START IN 2005

First quarter highlights compared to the same period last year:

- System operating income of \$67.9 million, up 15.1% from \$59.0 million
- Central's net income of \$3.51 million, compared to \$5.45 million
- System assets of \$31.64 billion, up 8.7% from \$29.12 billion
- System risk-weighted capital remains strong at 11.6%

British Columbia credit unions, collectively referred to as the system, earned \$67.9 million before taxes, dividends and patronage refunds in the first quarter of 2005, an increase of 15.1% from \$59.0 million over the same period last year. Combined assets for the system rose 8.7% to reach \$31.64 billion at quarter-end.

B.C. credit unions continue to perform very strongly in a climate of low interest rates and a robust provincial economy. Demand for loans remains high as total net loans increased by 9.2% year-over-year, to reach \$26.6 billion. The pace of increase in home mortgage loans has cooled somewhat over last year, but commercial and personal loan growth has accelerated. Loan delinquencies over 90 days are at record lows, reaching 0.28% of total loans compared to 0.51% a year ago.

Credit Union Central of British Columbia (Central), the central financial facility and trade association for B.C. credit unions, also had a strong quarter. Net income was \$3.51 million and assets increased 7.6% to \$4.1 billion from the same period last year.

In March, the Province of British Columbia, in anticipation of the implementation of the recommendations of Basel II by OSFI, introduced new capital regulations,

so as to ensure that credit unions are able to compete with the chartered banks on a level playing field.

## **Management's Discussion and Analysis as at May 26, 2005**

This portion of the Report to Members updates Central's annual Management's Discussion and Analysis for the year ended December 31, 2004, and provides a discussion and analysis of Central's financial condition and results of operations for the three-month period ended March 31, 2005 compared to the corresponding period in the preceding fiscal year. Additional information on Central, including its Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

There are numerous factors, many beyond Central's control, which could cause results to differ from expectations. These factors, which include industry factors, Central and system specific factors, economic factors and financial market conditions are substantially unchanged from those described in Central's annual Management's Discussion and Analysis for the year ended December 31, 2004. Central's performance is also subject to a number of risks, including credit, liquidity, market and operational risk. There has been no substantial change in Central's risk profile or in its management of risk as described in Central's Management's Discussion and Analysis for the year ended December 31, 2004.

In addition, this discussion may include forward-looking statements with regard to 2005 and beyond, which by their nature, involve some risk with regard to accuracy. Where forward-looking comments appear, they should be interpreted in the context of this uncertainty. The results reported in this management discussion and analysis and in the financial statements that follow are reported in Canadian dollars and are based on the significant accounting policies reported in *Note 2* of the 2004 annual financial statements which may be found at [www.sedar.com](http://www.sedar.com).

### **Overall Performance and Interim Financial Condition**

Central had a respectable first quarter in 2005. As anticipated, most measures of financial income were lower than those for the same period in 2004, due to the implementation of the final phase of improved pricing to credit unions on deposits and loans, to the tight credit spread environment and to limited opportunities to realize trading gains. Nevertheless, Central still earned a net income of \$3.51 million, or 3.1 cents a share compared to \$5.45 million and 5.2 cents last year. Net financial income of \$6.1 million was substantially lower than the \$8.8 million recorded for the first quarter of 2004 with most of the decrease attributable to lower securities trading income. Other income of \$10.7 million was slightly below that of last year's \$11.0 million but, operating expenses of \$12.5 million were also below the \$12.9 million of last year.

The credit union system continues its strong performance. System net operating income for the quarter was \$67.9 million, an increase of 15.1% from \$59.0 million for the first quarter of 2004. Financial margin and non-financial income both improved over last year while increases in non-financial expenses were well contained. Total net system loans were \$26.61 billion, an increase of 9.2% from \$24.37 billion as at March 31, 2004. Residential mortgage loans increased by 6.4%; however, commercial and other personal loans had double digit increases.

Central's and the system's financial condition remain solid and are comparable to that of March 31, 2004. Capital ratios remain strong. Central's risk-weighted capital ratio was 16.8% <sup>(1)</sup> and its borrowing multiple was 16.6:1. The system risk-weighted capital position of 11.62% <sup>(1)</sup> was slightly lower than the 11.91% as of March 31, 2004. Credit quality remains high in the system's loan portfolios and system provisions for credit losses as a percentage of average loans were consistent with prior periods.

Overall liquidity within the system, including that held by Central, decreased to 11.41% of assets from 12.25% as at March 31, 2004. It is anticipated that liquidity may improve later in the year, as the B.C. housing market cools from its strong pace of activity.

FOR THE THREE MONTHS ENDED

	March 31, 2005	March 31, 2004	Increase/Decrease
<b>Central</b>			
<b>Earnings</b>			
Net Interest Income ( <i>\$ millions</i> )	6.08	8.81	(2.73)
Net Interest and Other Income ( <i>\$ millions</i> )	16.83	19.85	(3.02)
Net Income ( <i>\$ millions</i> )	3.51	5.45	(1.94)
Earnings Per Share ( <i>cents</i> )			
Basic	3.1	5.2	(2.1)
Diluted	3.1	5.2	(2.1)
Return On:			
Average Assets (%)	0.34	0.58	(0.24)
Average Equity (%)	6.00	10.07	(4.07)
<b>Balance Sheet Data ( \$ billions )</b>			
Total Assets	4.07	3.78	0.29
Average Assets	4.12	3.75	0.37
Long-term Financial Liabilities	1.49	1.34	0.15
<b>Share Information</b>			
Outstanding \$1 Par Value Shares (\$1,000's)			
Class A - Credit Unions	113,345	105,479	7,866
Class B - Cooperatives	3	3	0
Class C - Other	4	4	0
Dividends Per Share (all classes) (cents)	1.2	1.1	0.1
<b>System (unaudited)</b>			
Net Operating Income ( <i>\$ millions</i> )	67.92	58.99	8.93
Total Assets ( <i>\$ billions</i> )	31.64	29.12	2.52
Number of Credit Unions	54	61	(7)

<sup>(1)</sup> In March 2005, the Capital Requirements Regulation which applies to credit unions in British Columbia, including Central, was amended to reflect many of the revisions endorsed by the Basel Committee on Banking Supervision, commonly referred to as Basel II. In particular, the risk-weighting for residential mortgages was reduced to 0.35% from 0.50% and the standardized variable risk-weighting approach for debt instruments, which is based on credit ratings, was adopted. The capital ratios reported here for Central and the system do not, as yet, fully reflect the change in regulations.

## **Total Revenues**

### Net Interest Income

Net interest income was \$6.08 million for the quarter compared to \$8.81 million for the same period last year. Interest margin, at \$4.72 million, was slightly lower than last year's \$4.92 million and reflects a number of items. Low interest rates, tight spreads between Government of Canada securities and other debt instruments as well as the implementation of the final phase of improved pricing of deposits and loans to member credit unions all contributed to a lower margin. Trading gains, inclusive of changes in fair value, were a more normal \$1.36 million compared to the record \$3.90 million in the first quarter last year and reflect a less volatile interest rate environment and a flatter yield curve.

Central anticipates that the factors that have narrowed financial margin will remain in place for the remainder of the year and that the opportunities for trading gains will be limited.

### Other Income

Central's Other Income of \$10.74 million was flat to last year's \$11.03 million. There were no significant variances in sources of non-financial income from those of last year. Income from payments processing represents almost 60% of Other Income and dues from members a further 13%. All other sources individually represent less than 10% of Other Income.

## **Operating Expenses**

Operating expenses decreased to \$12.49 million compared to \$12.95 million last year. The decrease was primarily due to lower maintenance costs and repairs to Central's premises at 1441 Creekside Drive and to no amortization costs for the Inovera e-commerce joint venture which was fully written off last year.

## **Balance Sheet**

### Cash and Securities and Liquidity Management

Central's assets increased by \$288 million to \$4.07 billion from \$3.78 billion as at March 31, 2004, reflecting deposit growth from members. Cash and securities increased \$94 million from one year ago. Loans to members increased by \$182 million to \$1.1 billion. At \$2,936 million, cash and securities represents over 72% of Central's assets. System liquidity decreased to 11.41% from 12.25%, as at March 31, 2004. Central has not drawn

down any of its operating lines with other financial institutions and has ample unused capacity remaining in its commercial paper and medium-term note programs to meet further loan advances to credit unions.

### Loans and Off-Balance Sheet Arrangements

Loans, which are almost entirely secured loans to member credit unions, increased to \$1,099 million from \$917 million last year. A strong real estate market continues to drive consumer loan demand, which in turn has driven borrowing by credit unions. In January 2004, Central lowered its lending fees on loans to member credit unions. This has placed Central as the lender of choice for most credit unions. Another factor in credit union loan volume is the extent to which credit unions securitize assets. As at March 31, assets securitized by the system through Central were as follows:

\$ millions	MARCH 31, 2005	MARCH 31, 2004
Residential Mortgages	\$1,510.0	\$804.6
Commercial Mortgages	156.0	222.8
Total Securitized	\$1,666.0	\$1,027.4

It is anticipated that last year's strong pace of securitization will continue in 2005 as credit unions manage their liquidity and capital positions.

### Summary of Quarterly Results

Central's financial results for each of the last eight, most recently completed quarters, are summarized in the accompanying table. In general, Central's net interest income is quite stable from quarter to quarter, with no discernable seasonal trend, and reflects the condition of prevailing financial markets. However, interest income and dividends from CUCC and its subsidiaries, if any, are generally received in the first quarter of each year. Non-interest income and non-interest expenses are also generally consistent from quarter to quarter. However, in the fourth quarter of 2004, there were significant non-recurring expense items, including the \$2.07 million write-down of the remaining value of software purchased from the Inovera e-commerce joint venture. Trading gains and losses, however, have a significant impact on quarterly net income and their timing and magnitude are not predictable.

## CREDIT UNION CENTRAL OF BRITISH COLUMBIA - QUARTERLY EARNINGS

<i>(Thousand of Dollars)</i>	2005/2004				2004/2003			
	Period Ended				Period Ended			
	Mar.31	Dec.31	Sep.30	Jun.30	Mar.31	Dec.31	Sep.30	Jun.30
Total Interest Income	\$ 32,629	\$ 31,972	\$ 29,126	\$ 28,693	\$ 30,821	\$ 31,710	\$ 32,611	\$ 35,492
Total Interest Expense	27,910	27,395	24,561	24,104	25,902	27,237	27,973	30,935
Net Interest Income	4,719	4,577	4,565	4,589	4,919	4,473	4,638	4,557
Trading Gains & Change in Fair Value	1,364	691	937	1,433	3,895	1,084	3,415	3,525
Provision for losses		(328)						
Non-Interest Income	10,742	11,706	10,295	10,549	11,034	10,925	10,273	10,055
Non-Interest Expenses	(12,485)	(16,618)	(12,340)	(12,468)	(12,948)	(12,529)	(11,913)	(13,027)
Income Taxes	(831)	(20)	(812)	(708)	(1,448)	(1,038)	(1,286)	(696)
<b>Net Income</b>	<b>\$ 3,509</b>	<b>\$ 8</b>	<b>\$ 2,645</b>	<b>\$ 3,395</b>	<b>\$ 5,452</b>	<b>\$ 2,915</b>	<b>\$ 5,127</b>	<b>\$ 4,414</b>
Earnings per Share*	3.10	0.01	2.33	3.21	5.17	2.80	4.90	4.20
Earnings per Share fully diluted	3.10	0.01	2.33	3.21	5.17	2.80	4.90	4.20

\*Earnings per share calculated for a central credit union must be taken in the context that member shares may not be traded or transferred.

### Capital Resources

Capital resources, consisting of member equity and retained earnings, reached \$235.4 million, compared to \$222.1 million as at March 31, 2004. Central implemented a share-call of approximately \$7.9 million in the second quarter of 2004 in order to maintain total capital at its target levels and at its target mix of share capital and retained earnings.

Central's federal capital adequacy ratio was well within its targeted operating range and on par with that at March 31, 2004. Central's provincial risk-weighted ratio at 16.8% was higher than Central's target, and reflects the low risk weights of the majority of securities in Central's liquidity portfolio and the 20% risk-weighting of loans to member credit unions.

	<b>MARCH 31, 2005</b>	<b>MARCH 31, 2004</b>	<b>TARGET</b>
Borrowing Multiple	16.6:1	16.7:1	16:1 – 18:1
Risk-weighted Ratios <sup>(1)</sup>	16.8%	15.5%	11 – 14%

- (1) In March 2005, the Capital Requirements Regulation which applies to credit unions in British Columbia, including Central, was amended to reflect many of the revisions endorsed by the Basel Committee on Banking Supervision, commonly referred to as Basel II. In particular, the risk-weighting for residential mortgages was reduced to 0.35% from 0.50% and the standardized variable risk-weighting approach for debt instruments, which is based on credit ratings, was adopted. The capital ratios reported here for Central and the system do not, as yet, fully reflect the change in regulations.

## **Financial Instruments and Other Instruments**

There have been no substantial changes to the nature and extent of Central's use of financial instruments or the business purpose that they serve, nor to the risks of such instruments, nor to Central's management of such risks.

Financial income and expense are classified on Central's financial statements as to source. Trading gains or losses are shown separately, as are changes in fair value of certain financial instruments which are classified as trading positions or which are financial derivatives for which Central has not established a hedging relationship.

**Credit Union Central of British Columbia**  
**Consolidated Balance Sheet**  
**Unaudited**

	March 31		December 31
	2005	2004	2004
	(000's)		(000's)
<b>Assets</b>			
Cash	\$ 21,756	\$ 20,479	\$ 50,533
Securities	2,914,711	2,822,117	3,573,589
Loans	1,098,579	916,782	745,290
Land, Buildings & Equipment	10,418	10,763	10,648
Other	24,397	11,606	25,130
	<u>\$ 4,069,861</u>	<u>\$ 3,781,747</u>	<u>\$ 4,405,190</u>
<b>Liabilities</b>			
Deposits & Notes	\$ 3,767,322	\$ 3,513,911	\$ 4,114,986
Other	65,740	44,577	52,301
Dividends	1,384	1,156	4,885
	<u>3,834,446</u>	<u>3,559,644</u>	<u>4,172,172</u>
<b>Equity</b>			
Shares	113,352	105,486	113,352
Retained Earnings	122,063	116,617	119,666
	<u>235,415</u>	<u>222,103</u>	<u>233,018</u>
	<u>\$ 4,069,861</u>	<u>\$ 3,781,747</u>	<u>\$ 4,405,190</u>

Approved by the Directors:

"Daniel A. Burns"  
Daniel A. Burns, Chairperson

"Ross Montgomery"  
Ross Montgomery, Chairperson - Audit Committee

**Credit Union Central of British Columbia**  
**Consolidated Income Statement**  
**Unaudited**

	(000's)	
	For the three months ended	
	March 31 2005	March 31 2004
	<u>          </u>	<u>          </u>
Financial Income		
Loans	\$ 7,420	\$ 5,622
Securities	25,209	25,199
	<u>32,629</u>	<u>30,821</u>
Financial Expense		
Deposits	25,423	23,930
Borrowed funds	2,487	1,972
	<u>27,910</u>	<u>25,902</u>
Interest Margin	4,719	4,919
Trading gains	1,580	3,781
Change in fair value	(216)	114
Net financial income	<u>6,083</u>	<u>8,814</u>
Other income	10,742	11,034
Net interest and other income	<u>16,825</u>	<u>19,848</u>
Operating Expenses		
Salaries	6,173	5,737
Premises and equipment, including depreciation	1,157	1,189
Other	5,155	6,022
	<u>12,485</u>	<u>12,948</u>
Income before the following Income taxes	4,340	6,900
	<u>831</u>	<u>1,448</u>
Net Income	3,509	5,452
Retained Earnings, beginning of period	<u>119,666</u>	<u>112,094</u>
	123,175	117,546
Dividends	(1,383)	(1,156)
Related income tax savings	271	227
Retained Earnings, end of period	<u>\$ 122,063</u>	<u>\$ 116,617</u>
<u>Supplemental Information</u>		
Employee Future Benefits expense	<u>\$ 330</u>	<u>\$ 427</u>

**Credit Union Central of British Columbia**  
**Consolidated Statement of Cash Flows**  
**Unaudited**

	(000's)	
	For the three months ended	
	March 31	March 31
	2005	2004
Cash flows from operating activities		
Net Income	\$ 3,509	\$ 5,452
Adjustments for:		
Depreciation	303	516
Other items, net	19,008	(1,943)
Net change in accrued interest	(24,278)	(1,297)
	(1,458)	2,728
Cash flows from financing activities		
Dividends - net of income taxes	(4,613)	(5,836)
Net change - Settlements in transit	(4,836)	5,297
Net change in deposits and notes	(336,040)	(147,719)
	(345,489)	(148,258)
Cash flows from investing activities		
Net change in securities	669,857	630,940
Net change in loans	(351,614)	(478,284)
Net change in premises and equipment	(73)	(2)
	318,170	152,654
Increase (decrease) in cash resources	(28,777)	7,124
Cash resources - beginning of period	50,533	13,355
Cash resources - end of period	\$ 21,756	\$ 20,479
<u>Supplemental Information</u>		
Interest received	\$ 19,975	\$ 30,800
Interest paid	\$ 39,534	\$ 26,630
Income taxes paid	\$ -	\$ 643

**Credit Union Central of British Columbia**  
**Note to the March 31, 2005 Interim Consolidated Financial Statements**

Credit Union Central of British Columbia is incorporated under the Credit Union Incorporation Act (British Columbia) and is subject to the provisions of the Financial Institutions Act (British Columbia) and the Cooperative Credit Associations Act (Canada).

These interim consolidated financial statements do not contain the complete disclosure of the annual financial statements. Accordingly these financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2004.

**1. Significant accounting policies**

The consolidated financial statements include the accounts of Credit Union Central of British Columbia and its subsidiaries, Central Financial Corporation (1989) Ltd., C.U. Financial Services Ltd., Central Data Systems Ltd., and Inovera Solutions Inc., all of which are wholly owned.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2004.

**2. Comparative amounts**

Certain comparative amounts have been reclassified to conform to current year presentation.