

# First Quarter Report 2006

## REPORT TO MEMBERS

### SYSTEM <sup>(1)</sup> HAS A RESPECTABLE FIRST QUARTER

First quarter highlights compared to the same period last year:

- System operating income of \$63.69 million, versus \$67.92 million
- Central's net income of \$5.33 million, up 72.5% from \$3.09 million <sup>(2)</sup>
- System assets of \$35.8 billion, up 13.3% from \$31.6 billion

British Columbia credit unions, collectively referred to as the system, continue to perform well in a climate of a robust provincial economy and strong residential housing markets. The system earned \$63.69 million before taxes, dividends and patronage refunds in the first quarter of 2006. Combined assets for the system rose 13.3%, year-over-year, to reach \$35.8 billion at quarter-end.

Demand for loans remains high as total system net loans increased by 15.2% year-over-year, to reach \$30.7 billion. Commercial and personal loans secured by real estate grew by 23.7% and 16.8%, year-over-year respectively. System loan delinquency over 90 days remains near record lows, reaching 0.21% of total loans compared to 0.28% a year ago.

Credit Union Central of British Columbia (Central), the central financial facility and trade association for B.C. credit unions, had a strong quarter. Net income was \$5.33 million compared to \$3.09 million for the same period last year. Assets increased 9.8% to \$4.5 billion from \$4.1 billion as at March 31, 2005.

- (1) These documents include statements about the credit union system in British Columbia. System financial information has been provided by Stabilization Central Credit Union of British Columbia (Stabilization Central), which makes available reports on information provided by British Columbia credit unions. Central has no means of verifying the accuracy of information provided by credit unions to Stabilization Central or Stabilization Central's subsequent compilation of that information. Reference to system information should be interpreted in the context of this uncertainty.
- (2) In 2005, Central made changes to its accounting policies which are described in *Note 2(l)* of Central's 2005 Consolidated Financial Statements. Information presented in this report has been restated to reflect these changes.

## **Management's Discussion and Analysis as at March 31, 2006**

This portion of the Report to Members updates Central's Management's Discussion and Analysis for the year ended December 31, 2005, and provides a discussion and analysis of Central's financial condition and results of operations for the three-month period ended March 31, 2006 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).

The results reported in this Management's 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 2005 financial statements which may be found 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 Management's Discussion and Analysis for the year ended December 31, 2005. 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, 2005.

In addition, this discussion may include forward-looking statements with regard to 2006 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.

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

Central had a strong first quarter in 2006, achieving a net income of \$5.33 million, or 4.70 cents a share compared to \$3.09 million or 2.73 cents a share last year. Net financial income of \$6.39 million improved from the \$5.66 million recorded in the first quarter of 2005 with the increase attributable to improved financial margin.

Other income of \$12.54 million for the quarter was higher than last year's \$10.67 million, primarily due to higher payment processing and Internet banking revenues, but also due to higher income distributions from Credit Union Central of Canada (CUCC). Operating expenses of \$12.39 million were flat compared to the \$12.41 million incurred last year.

The system continues to perform respectably. System net operating income for the quarter was \$63.69 million, compared to \$67.92 million for the first quarter of 2005. Financial margin and non-financial income both improved over last year, however these were more than offset by increases in non-financial expense, some of which are due to timing differences from those of last year. System financial margin continues to be challenged by a flat yield curve and heavy discounting of residential mortgages.

The financial condition of Central and the system remains solid and is comparable to that of March 31, 2005. Capital ratios remain strong. Central's risk-weighted capital ratio was 20.6% and its borrowing multiple was 16.6:1. System risk-weighted capital was 13.0%.. 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 10.1% of system assets from 11.4% as at March 31, 2005. Part of this decrease may be attributed to reductions in statutory liquidity requirements for credit unions that came into effect in two stages, on July 1, 2005 and January 1, 2006. Continued strong loan demand by members is also a factor in the lower liquidity levels.

<b>Central</b>	Unaudited	Unaudited	Increase/ (Decrease)
<b>Earnings</b>	March 31, 2006	March 31, 2005	
Net Financial Income ( <i>\$ millions</i> )	6.39	5.66	0.73
Net Financial and Other Income ( <i>\$ millions</i> )	18.92	16.33	2.59
Net Income ( <i>\$ millions</i> )	5.33	3.09	2.24
Earnings Per Share ( <i>cents</i> )			
Basic	4.70	2.73	1.97
Diluted	4.70	2.73	1.97
Return On:			
Average Assets (%)	0.50	0.30	0.20
Average Equity (%)	8.33	5.00	3.33
<b>Balance Sheet Data</b> ( <i>\$ billions</i> )			
Total Assets	4.49	4.08	0.41
Average Assets	4.26	4.14	0.12
Long-term Financial Liabilities	1.71	1.49	0.22
<b>Share Information</b>			
Outstanding \$1 Par Value Shares (thousands)			
Class A - Credit Unions	113,345	113,345	0
Class B - Cooperatives	3	3	0
Class C - Other	4	4	0
Dividends Per Share (all classes) ( <i>cents</i> )	1.79	1.22	0.57
<b>System</b>			
Net Operating Income ( <i>\$ millions</i> )	63.69	67.92	(4.23)
Total Assets ( <i>\$ billions</i> )	35.8	31.6	4.2
Number of Credit Unions	52	54	(2)

## Total Revenues

### Net Financial Income

Central's net financial income was \$6.39 million for the quarter compared to \$5.66 million for the same period last year. Interest margin, at \$5.54 million, was improved from last year's \$5.02 million. Higher interest rates and increased interest rate swap spreads are the factors that contributed to improved financial margin. Trading gains, inclusive of changes in fair value, were \$0.84 million, slightly more than that of last year's \$0.65 million. The realization of gains in the securities portfolio will diminish as the Bank of Canada continues to raise short-term interest rates.

### Other Income

Central's other income for the quarter of \$12.54 million improved from last year's \$10.67 million. On the back of higher volumes, income from payments processing and Internet banking, which represent 39% and 18% of other income, respectively, were up sharply. Management anticipates that this trend will continue as Central extends its lines of

business to others. In addition, Central received an income distribution from CUCC of \$0.66 million during the quarter, versus \$0.17 million last year.

## Operating Expenses

Operating expenses of \$12.39 million for the quarter were flat, to the \$12.41 million of last year. Higher salary and benefit costs, attributable to higher levels of technology department staffing and increases in benefit and future benefit costs, were offset by reductions in other expenses. Management anticipates that operating expenses for the full fiscal year will increase from those of last year as various planned projects and initiatives commence.

## Balance Sheet

### Cash and Securities and Liquidity Management

Central's assets increased by \$416 million to \$4.5 billion from \$4.1 billion as at March 31, 2005, reflecting strong loan growth from members. To fund this loan growth, Central issued an additional \$225 million of medium-term notes. At \$2,830 million, cash and securities represent almost 63% of Central's assets. Central has not drawn down any of its operating lines with other financial institutions and has sufficient 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 \$1,634 million from \$1,099 million last year. Strong real estate markets continue to drive consumer loan demand, which in turn has driven borrowing by credit unions. Credit unions continue to rely on securitization to fund growth. As at March 31, assets securitized by the system through Central were as follows:

\$ millions	MARCH 31, 2006	MARCH 31, 2005
Residential Mortgages	\$1,932	\$1,510
Commercial Mortgages	93	156
Total Securitized	\$2,025	\$1,666

Last year's strong pace of securitization of residential mortgages continued in 2006 as credit unions manage their liquidity and capital positions. Securitization of commercial mortgages has, for now, ceased as a result of an increase in 2003 in the regulatory concentration penalty "cap" on commercial lending from 20 percent to 30 percent of a credit union's assets.

## 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. In 2006 and 2005, these amounted to \$0.66 million and \$0.17 million, respectively. Non-interest income and non-interest expenses are also generally consistent from quarter to quarter. However, in the fourth quarters of 2004 and 2005, there were significant non-recurring expense items, including, in 2004, the \$2.07 million write-down of the remaining value of software acquired from the purchase of the Inovera e-commerce joint venture and, in 2005, \$1.38 million in employee retirement and severance expenses. Trading gains and losses also have a significant impact on quarterly net income but their timing and magnitude are not predictable.

### CREDIT UNION CENTRAL OF BRITISH COLUMBIA – QUARTERLY EARNINGS <sup>(1)</sup> (Unaudited)

(Thousands of Dollars)	2006/2005				2005/2004			
	Period Ended				Period Ended			
	31-Mar-06	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05	31-Dec-04	30-Sep-04	30-Jun-04
Total Interest Income	\$ 39,648	\$ 37,725	\$ 33,906	\$ 33,454	\$ 32,925	\$ 32,626	\$ 28,757	\$ 29,744
Total Interest Expense	34,104	31,320	28,697	27,877	27,909	27,395	24,561	24,104
Interest Margin	5,544	6,405	5,209	5,577	5,016	5,231	4,196	5,640
Trading Gains	799	46	1,311	2,431	863	71	547	1,080
Change in fair value of financial instruments	43	(194)	(290)	429	(216)	50	223	(32)
Provision for Credit Losses						(328)		
Other Income	12,535	12,253	11,075	11,237	10,668	11,110	10,295	10,467
Operating Expenses	(12,392)	(17,041)	(12,556)	(13,417)	(12,412)	(16,023)	(12,340)	(12,468)
Income Taxes	(1,201)	(263)	(867)	(1,232)	(830)	(36)	(706)	(821)
Net Income	\$ 5,328	\$ 1,206	\$ 3,882	\$ 5,025	\$ 3,089	\$ 75	\$ 2,215	\$ 3,866
Shares	113.35	113.35	113.35	113.35	113.35	113.35	113.35	113.35
Earnings per share (cents) <sup>(2)</sup>	4.70	1.06	3.42	4.43	2.73	0.07	1.95	3.41
Earnings per share fully diluted (cents)	4.70	1.06	3.42	4.43	2.73	0.07	1.95	3.41

(1) Certain comparative amounts have been restated to conform to current year presentation

(2) 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 share capital and retained earnings, reached \$257.4 million, compared to \$247.4 million as at March 31, 2005.

Central's federal capital adequacy ratio was within its targeted operating range and on par with that at March 31, 2005. Central's provincial risk-weighted ratio at 20.6% was considerably higher than Central's target, and reflects the relatively low risk weighting of the majority of securities in Central's liquidity portfolio.

	<b>MARCH 31, 2006</b>	<b>MARCH 31, 2005</b>	<b>TARGET</b>
Borrowing Multiple	16.6:1	15.7:1	16:1 – 18:1
Risk-weighted Ratios	20.6%	21.5%	11 – 14%

## 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**

	Notes	(Thousands of dollars)		December 31
	<u>          </u>	March 31	2005	2005
		<u>2006</u>	<u>2005</u>	<u>2005</u>
Assets			<b>(Restated)</b> <b>(Note 2)</b>	
Cash		\$ 72,837	\$ 21,756	\$ 65,663
Securities	3	2,756,765	2,924,828	3,795,046
Loans	4	1,633,870	1,098,579	787,433
Capital assets		9,998	10,418	10,189
Other		20,096	22,315	18,803
		<u>\$ 4,493,566</u>	<u>\$ 4,077,896</u>	<u>\$ 4,677,134</u>
Liabilities				
Notes	5	\$ 900,720	\$ 399,703	\$ 350,716
Deposits	6	3,250,351	3,367,619	3,989,426
Dividends		2,033	1,384	6,109
Other		83,091	61,819	77,201
		<u>4,236,195</u>	<u>3,830,525</u>	<u>4,423,452</u>
Members' Equity				
Shares		113,352	113,352	113,352
Retained earnings		144,019	134,019	140,330
		<u>257,371</u>	<u>247,371</u>	<u>253,682</u>
		<u>\$ 4,493,566</u>	<u>\$ 4,077,896</u>	<u>\$ 4,677,134</u>

Approved by the Directors:

"Daniel A. Burns"

Daniel A. Burns, Chairperson

"J. Ross Montgomery"

J. Ross Montgomery, Chairperson - Audit Committee

See accompanying notes to the consolidated financial statements

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

(Thousands of dollars)

	Notes	For the three months ended	
	<u>          </u>	March 31 2006	March 31 2005
			<b>(Restated)</b> <b>(Note 2)</b>
Interest Income			
Securities		\$ 25,670	\$ 25,505
Loans		13,978	7,420
		<u>39,648</u>	<u>32,925</u>
 Interest Expense			
Notes		6,105	2,487
Deposits		27,999	25,422
		<u>34,104</u>	<u>27,909</u>
 Interest Margin		5,544	5,016
Trading gains		799	863
Change in fair value of financial instruments		43	(216)
Net financial income		<u>6,386</u>	<u>5,663</u>
Other income	8	<u>12,535</u>	<u>10,668</u>
Net interest and other income		<u>18,921</u>	<u>16,331</u>
 Operating Expenses			
Salaries and employee benefits		6,597	6,173
Premises and equipment, including depreciation		1,217	1,157
Other		4,578	5,082
		<u>12,392</u>	<u>12,412</u>
 Income before income taxes		6,529	3,919
Income taxes		<u>1,201</u>	<u>830</u>
 Net Income		<u>\$ 5,328</u>	<u>\$ 3,089</u>

See accompanying notes to the consolidated financial statements

**Credit Union Central of British Columbia**  
**Consolidated Statement of Retained Earnings**  
**Unaudited**

(Thousands of dollars)

	For the three months ended	
	March 31 2006	March 31 2005
		<b>(Restated)</b> <b>(Note 2)</b>
Retained Earnings, beginning of period as previously stated	\$ 140,330	\$ 119,666
Adjustment to reflect change in method of accruing interest	-	4,613
Adjustment to reflect change in accounting policy	-	7,764
Retained Earnings, beginning of period	140,330	132,043
Net Income	5,328	3,089
Dividends	(2,033)	(1,384)
Related tax savings	394	271
Retained Earnings, end of period	<u>\$ 144,019</u>	<u>\$ 134,019</u>

See accompanying notes to the consolidated financial statements

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

(Thousands of dollars)

	For the three months ended March 31 2006	March 31 2005
		<b>(Restated)</b> <b>(Note 2)</b>
Cash flows from operating activities		
Net income	\$ 5,328	\$ 3,089
Adjustments for:		
Depreciation	206	303
Gain on securities	(842)	(647)
Net change in accrued interest	(5,263)	(18,164)
Other items, net	(2,996)	14,389
	<u>(3,567)</u>	<u>(1,030)</u>
Cash flows from financing activities		
Dividends - net of income taxes	(5,715)	(4,614)
Net change - settlements-in-transit	7,593	(4,836)
Net change - notes	548,580	27,640
Net change - deposits	<u>(729,449)</u>	<u>(366,424)</u>
	<u>(178,991)</u>	<u>(348,234)</u>
Cash flows from investing activities		
Net change - securities	1,034,792	672,174
Net change - loans	(845,045)	(351,614)
Capital asset acquisitions	(15)	(73)
	<u>189,732</u>	<u>320,487</u>
Increase (decrease) in cash resources	7,174	(28,777)
Cash resources - beginning of period	65,663	50,533
Cash resources - end of period	<u>\$ 72,837</u>	<u>\$ 21,756</u>
 Supplemental Information		
Interest received	<u>\$ 42,587</u>	<u>\$ 23,641</u>
Interest paid	<u>\$ 42,036</u>	<u>\$ 36,791</u>

See accompanying notes to the consolidated financial statements

# **Credit Union Central of British Columbia**

## **Notes to the March 31, 2006 Interim Consolidated Financial Statements**

Credit Union Central of British Columbia (Central) 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).

Central is the primary financial facility and trade associations for the province's independent credit unions. The performance of the British Columbia credit union system plays an integral part in determining the results of Credit Union Central's operations and its financial position.

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, 2005.

### **1. Significant accounting policies**

The consolidated financial statements include the accounts of Central 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, 2005.

### **2. Changes in Accounting Policy**

In 2005, Central changed its method of accounting for interest earned on its money market and bond holdings from the discount method to the constant yield method. The effect of this change was to increase opening retained earnings for the period ended March 31, 2005 by \$4.61 million and to decrease net income for the period ended March 31, 2005 by \$0.42 million.

Also in 2005, Central discontinued its policy of using general provisions for potential losses related to its securities portfolio. The effect of this change was to increase opening retained earnings for the period ended March 31, 2005 by \$7.76 million.

**Credit Union Central of British Columbia**  
**Notes to the March 31, 2006 Interim Consolidated Financial Statements**

**3. Securities**

(Thousands of dollars)

	<u>March 31</u> <u>2006</u>	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
<b>Investment Account</b>			
Within three months			
- Government	\$ 12,918	\$ 23,614	\$ 90,057
- Banks & Corporate	<u>1,384,780</u>	<u>944,392</u>	<u>2,155,110</u>
	<u>1,397,698</u>	<u>968,006</u>	<u>2,245,167</u>
Three months to 12 months			
- Government	113,553	149,150	108,754
- Banks & Corporate	<u>212,143</u>	<u>355,310</u>	<u>209,560</u>
	<u>325,696</u>	<u>504,460</u>	<u>318,314</u>
One to five years			
- Government	229,545	362,680	263,918
- Banks & Corporate	<u>708,091</u>	<u>994,601</u>	<u>809,813</u>
	<u>937,636</u>	<u>1,357,281</u>	<u>1,073,731</u>
Greater than five years			
- Government	-	6,099	-
- Banks & Corporate	<u>73,436</u>	<u>54,076</u>	<u>134,103</u>
	<u>73,436</u>	<u>60,175</u>	<u>134,103</u>
Total	<u>2,734,466</u>	<u>2,889,922</u>	<u>3,771,315</u>
<b>Other</b>			
Credit Union Central of Canada			
- Shares and deposits	8,160	8,093	8,093
Co-operative & other securities	<u>14,139</u>	<u>26,813</u>	<u>15,638</u>
	<u>22,299</u>	<u>34,906</u>	<u>23,731</u>
	<u>\$ 2,756,765</u>	<u>\$ 2,924,828</u>	<u>\$ 3,795,046</u>

At the period-end, securities having a book value of \$330.7 million were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments.

**Credit Union Central of British Columbia**  
**Notes to the March 31, 2006 Interim Consolidated Financial Statements**

**4. Loans**

(Thousands of dollars)

	<u>March 31</u> <u>2006</u>	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Due on demand - Credit Unions	\$ 33,662	\$ 24,274	\$ 19,674
- Co-operatives and others	<u>26,667</u>	<u>1,790</u>	<u>130</u>
	<u>60,329</u>	<u>26,064</u>	<u>19,804</u>
Term - Credit Unions	1,540,657	1,021,184	727,642
- Co-operatives & others	18,197	39,459	27,697
- Officers and employees	<u>12,602</u>	<u>9,934</u>	<u>11,597</u>
	<u>1,571,456</u>	<u>1,070,577</u>	<u>766,936</u>
	1,631,785	1,096,641	786,740
Accrued interest	<u>2,413</u>	<u>2,266</u>	<u>1,021</u>
	1,634,198	1,098,907	787,761
Allowance for losses (specific)	<u>328</u>	<u>328</u>	<u>328</u>
	<u>\$ 1,633,870</u>	<u>\$ 1,098,579</u>	<u>\$ 787,433</u>

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 1.91% to 4.30%.

**5. Notes**

(Thousands of dollars)

	<u>March 31</u> <u>2006</u>	<u>March 31</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Notes			
- due within three months	\$ 398,372	\$ 224,029	\$ 124,792
- due after three months and within one	50,000	-	-
- due after one year and less than five years	<u>450,000</u>	<u>175,000</u>	<u>225,000</u>
	898,372	399,029	349,792
Accrued interest	<u>2,348</u>	<u>674</u>	<u>924</u>
	<u>\$ 900,720</u>	<u>\$ 399,703</u>	<u>\$ 350,716</u>

Central has established \$380.7 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits.

**Credit Union Central of British Columbia**  
**Notes to the March 31, 2006 Interim Consolidated Financial Statements**

At each of March 31, 2006, March 31, 2005, and December 31, 2005 there were no borrowings under these facilities.

At March 31, 2006 Central was authorized to issue up to \$500 million in short term commercial paper and up to \$500 million in other borrowings which includes Central's mid term note facility. At March 31, 2006, **\$898.4** million was borrowed under these facilities (March 31, 2005 - \$399.0 million; December 31, 2005 - \$349.8 million).

**6. Deposits**

	(Thousands of dollars)		
	<u>March 31</u>	<u>March 31</u>	<u>December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Deposits			
- due on demand	\$ 182,800	\$ 120,148	\$ 139,362
- due within three months	732,762	796,842	1,686,752
- due after three months and within one year	1,029,457	903,335	742,565
- due after one year and less than five years	1,260,883	1,502,336	1,367,497
- due after five years and less than six years	<u>1,825</u>	<u>250</u>	<u>1,000</u>
	<b>3,207,727</b>	3,322,911	3,937,176
Accrued interest	<u>42,624</u>	<u>44,708</u>	<u>52,250</u>
	<b><u>\$ 3,250,351</u></b>	<b><u>\$ 3,367,619</u></b>	<b><u>\$ 3,989,426</u></b>

**7. Financial instruments with off-balance sheet risk**

Central is a party to financial instruments with off-balance sheet risk that, in the normal course of business, are used to meet its own and its credit union members' financial needs. These instruments include commitments to extend credit; standby letters of credit and financial guarantees and interest rate swap agreements and options. There are varying degrees of credit, interest rate and liquidity risk associated with these instruments.

**Credit Union Central of British Columbia**  
**Notes to the March 31, 2006 Interim Consolidated Financial Statements**

(Thousands of dollars)	<u>Contractual or notional amounts</u>		
	<u>March 31</u>	<u>March 31</u>	<u>December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Financial instruments whose contract could represent credit risk:			
- commitments to extend credit	\$ 1,310,228	\$ 1,170,130	\$ 864,036
- standby letters of credit and financial guarantees	149,592	128,991	1,270,394
- commitments to accept deposits at agreed rates and terms	408,440	630,336	558,286
Financial instruments whose notional amounts do not represent credit risk:			
Derivatives under hedge accounting			
- Interest rate agreements	1,991,033	1,577,721	1,839,093
Derivatives as financial intermediary			
- Interest rate agreements	6,427,426	6,838,324	6,399,632
Trading account			
- Interest rate agreements	151,000	173,000	116,000
- Forward rate agreements	-	-	11,659

Notional amounts represent the contract or principal amounts used in determining payments for certain off-balance sheet transactions, such as interest rate swaps and forward rate agreements. The amounts are termed "notional" because the principal amount, which is not exchanged, only serves as the basis for calculating the interest amount that is exchanged. Contract or principal amounts denominated in US dollars are converted to Canadian dollars at exchange rates in effect at the end of the period.

Central enters into derivative contracts on its own account to alter its exposure to interest rate risk. This may be accomplished by increasing or decreasing the term to maturity of certain financial instruments, or by changing the exposure on an instrument from fixed-to-floating or floating-to-fixed. Where a derivative qualifies for hedge accounting as outlined in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2005, Central may elect to designate that derivative as part of a hedging relationship.

Central also enters into derivative contracts in its role as intermediary. In that context, Central maintains a portfolio of derivative contracts with credit unions and other financial institutions which mirror one another. These derivatives do not qualify for hedge accounting and are carried at fair value in the financial statements.

**Credit Union Central of British Columbia**  
**Notes to the March 31, 2006 Interim Consolidated Financial Statements**

**8. Other Income**

		(Thousands of dollars)	
		<u>March 31, 2006</u>	<u>March 31, 2005</u>
Membership Dues		\$ 817	\$ 782
Provincial Advertising assessment		609	609
Payment Services	- Processing	4,832	4,376
	- Technical Operations	359	328
	- Internet banking	2,231	1,593
Financial Services	- Treasury Services	296	243
	- Lending Services	261	215
	- Property rents	601	592
	- Other	784	111
Trade Services	- Risk Management	417	418
	- Manuals	240	213
	- Registered Plans	459	439
	- Other	<u>629</u>	<u>749</u>
		<u>\$ 12,535</u>	<u>\$ 10,668</u>

**9. Comparative amounts**

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