

First Quarter Report 2007

REPORT TO MEMBERS

CENTRAL REPORTS STRONG RESULTS FOR THE FIRST QUARTER OF 2007

First quarter highlights compared to the same period last year:

- Central assets of \$5.1 billion, up 13.3% from \$4.5 billion
- Central's net income of \$5.11 million, compared to \$5.33 million
- Central return on equity of 7.80%, down from 8.33%
- System⁽¹⁾ net operating income⁽²⁾ of \$63.87 million, versus \$63.69 million
- System assets of \$39.3 billion, up 9.8% from \$35.8 billion

Credit Union Central of British Columbia (Central), the central financial facility and trade association for B.C. credit unions, had a good quarter. Net income was \$5.11 million compared to \$5.33 million for the same period last year. Net financial income and other income increased to \$20.22 million from \$18.59 million, however, operating expenses increased to \$14.00 million from \$12.06 million for the first quarter last year. Assets increased 13.3% to \$5.1 billion from \$4.5 billion as at March 31, 2006, on the back of increased lending to member credit unions.

Subsequent to the date of these financial results, Central and Credit Union Central of Ontario Ltd. (CUCO) entered into an agreement to combine their operations. The proposed merger will require approval by the membership of both organizations and is subject to regulatory authorization. It is anticipated that the transaction will close at the start of the fourth quarter of 2007.

British Columbia credit unions, collectively referred to as the system, continue to perform well in an environment defined by a strong provincial economy, record low unemployment and firm residential housing markets. The system earned \$63.87 million before taxes, dividends and patronage refunds in the first quarter of 2007, up slightly from the \$63.69 million earned during same period in 2006. Combined assets for the system in the same period rose 9.8%, year-over-year, to reach \$39.3 billion at quarter-end.

Demand for loans remains high as total system net loans increased by 10.9% year-over-year to reach \$34.0 billion. Commercial and personal loans secured by real

estate grew by 19.0% and 9.7%, year-over-year respectively. System loan delinquencies over 90 days continue to be at near record lows, reaching 0.20% of total loans compared to 0.21% a year ago.

- (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 this context.
- (2) System net operating income is equivalent to income from recurring operations and does not include extraordinary items, patronage dividends or income taxes.

Management's Discussion and Analysis as at March 31, 2007

This portion of the Report to Members updates Central's Management's Discussion and Analysis for the year ended December 31, 2006, and provides a discussion and analysis of Central's financial condition and results of operations for the three-month period ended March 31, 2007 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.

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 2006 consolidated financial statements which may be found at 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, 2006. 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, 2006.

In addition, this discussion may include forward-looking statements with regard to 2007 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 2007, achieving net income of \$5.11 million, or 4.50 cents a share compared to \$5.33 million or 4.70 cents a share last year. Net financial income of \$7.70 million increased from the \$6.39 million recorded in the first quarter of 2006 due to higher short-term interest rates and higher average assets.

Other income of \$12.51 million for the quarter was higher than last year's \$12.20 million, primarily due to increased payment processing revenues. Operating expenses of \$14.00 million were higher compared to the \$12.06 million incurred last year. The gap between other income and operating expenses was negative \$1.49 million compared to a positive gap of \$0.14 million last year. The difference is mostly due to increased expenses in the technology and trade services areas of Central in support of business growth.

System net operating income for the quarter was \$63.87 million, compared to \$63.69 million for the first quarter of 2006. Non-financial income rose a marginal 2.9% versus last year, though non-financial expense rose some 4.6%. System financial margin improved by 3.9% year-over-year despite the continued challenges presented 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, 2006. Capital ratios remain strong. Central's risk-weighted capital ratio was 23.2% and its borrowing multiple was 15.3:1. System risk-weighted capital was 12.7%. Credit quality remains high in the system's loan portfolios and system provisions for credit losses as a percentage of average loans are consistent with prior periods.

Overall liquidity within the system, including that held by Central, stood at 9.5% as of March 31, 2007, compared to 10.1% a year ago. Continued strong loan demand by members is, however, the major factor behind this year's lower liquidity levels. Although deposits with credit unions grew year-over-year by a healthy 7.9%, loans grew by 10.9%. The shortfall was met by higher borrowings and by a decrease in holdings of liquid assets.

	For the Three Months Ended March 31, 2007	For the Three Months Ended March 31, 2006	(Decrease) Change
Central ⁽³⁾			
Earnings			
Net Financial Income (\$ millions)	7.70	6.39	1.31
Net Financial and Other Income (\$ millions)	20.22	18.59	1.63
Net Income (\$ millions)	5.11	5.33	(0.22)
Earnings Per Share (cents)			
Basic	4.50	4.70	(0.20)
Diluted	4.50	4.70	(0.20)
Return On:			
Average Assets (%)	0.60	0.50	0.10
Average Equity (%)	7.80	8.33	(0.53)
Balance Sheet Data (\$ billions)			
Total Assets	5.13	4.51	0.62
Average Assets	4.86	4.26	0.60
Long-term Financial Liabilities	1.47	1.71	(0.24)
Capital Ratios			
Tier 1 Capital Ratio (%)	19.6	20.6	(1.0)
Total Capital Ratio (%)	23.2	20.6	2.6
Borrowing Multiple (times)	15.3	16.6	(1.3)
Share Information			
Outstanding \$1 Par Value Shares (thousands)			
Class A - Credit Unions	113,345	113,345	0.00
Class B - Cooperatives	3	3	0.00
Class C - Other	5	4	1.00
Dividends Per Share (all classes) (cents)	2.06	1.79	0.27
System ⁽³⁾			
Net Operating Income (\$ millions)	63.87	63.69	0.18
Total Assets (\$ billions)	39.30	35.80	3.50
Total Capital Ratio (%)	12.65	12.96	-0.31
Number of Credit Unions	51	52	(1)
Number of Branches	359	355	4
Number of Members (thousands)	1,589	1,549	40

⁽³⁾ Unaudited

Total Revenues

Net Financial Income

Central's net financial income increased 20.5% to \$7.70 million for the quarter from \$6.39 million for the same period last year. Interest margin, at \$7.23 million, was markedly improved from last year's \$5.54 million. Higher interest rates, higher average loans to credit unions and higher average assets were the major contributors to improved interest margin relative to last year. Trading gains, inclusive of changes in fair value, were \$0.48 million, significantly less than that of last year's \$0.84 million. The realization of gains in the securities portfolio has diminished in recent years with the rise in short-term interest rates and the flattening of the yield curve.

Other Income

Central's other income for the quarter increased by 2.5% to \$12.51 million from last year's \$12.20 million. Income from payments processing has increased on the back of higher volumes. Management anticipates that this trend will continue as Central continues to extend these lines of business to entities outside the system. Year-to-date figures also include an income distribution from Credit Union Central of Canada (CUCC) of \$0.50 million during the first quarter, versus \$0.66 million last year.

Operating Expenses

Operating expenses increased to \$14.00 million for the quarter from \$12.06 million last year. Salary costs increased from \$6.60 million to \$7.38 million reflecting higher levels of technology department staffing. Corporate and national projects have contributed to the balance of the increase in Other Operating expenses.

Income Taxes

Central's income tax expense for the quarter was \$1.10 million which compares to \$1.20 million last year. Central also recorded a tax recovery for accrued dividends of \$0.41 million in the quarter, versus \$0.39 million during the same period last year. Central's effective tax rate for the quarter was 17.8% compared to 18.4% for the same quarter in 2006.

Balance Sheet

Cash and Securities and Liquidity Management

Central's assets increased by \$617 million to \$5.1 billion from \$4.5 billion as at March 31, 2006, reflecting strong loan growth to its members. This loan growth was funded through a combination of increased deposits from members and external borrowings. At \$3.0 billion, cash and securities represent over 58% 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 \$2.0 billion from \$1.6 billion last year. Strong real estate markets continue to drive consumer loan demand, which in turn has driven borrowing by credit unions. Credit unions also continue to rely on securitization to fund growth. As at March 31, assets securitized by the system through Central were as follows:

\$ millions	MAR 31, 2007	MAR 31, 2006
Total Securitized	\$3,006	\$2,025

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 2007 and 2006, these amounted to \$0.50 million and \$0.66 million, respectively. Non-interest income and non-interest expenses are also generally consistent from quarter to quarter. However, the fourth quarter 2005 includes \$1.38 million in non-recurring 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 (Unaudited)

<i>(Millions of Dollars)</i>	2007/2006				2006/2005			
	Period Ended				Period Ended			
	30-Jun-06	30-Sep-06	31-Dec-06	31-Mar-07	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06
Total Interest Income	\$ 45,341	\$ 50,284	\$ 52,181	\$ 53,458	\$ 33,486	\$ 33,988	\$ 37,887	\$ 39,729
Total Interest Expense	38,845	43,721	45,294	46,233	27,907	28,780	31,483	34,185
Net Interest Income	6,496	6,563	6,887	7,225	5,579	5,208	6,404	5,544
Trading Gains	87	(131)	(71)	(113)	2,431	1,311	46	799
Holding Gains	398	236	105	591	429	(291)	(193)	43
Provision for losses			(795)	0				
Non-interest Income	10,778	13,394	13,821	12,514	10,935	10,784	11,991	12,199
Non-interest Expenses	(13,195)	(13,717)	(16,797)	(14,003)	(13,117)	(12,263)	(16,698)	(12,056)
Income Taxes	(1,294)	(991)	(499)	(1,107)	(1,233)	(867)	(263)	(1,201)
Net Income	\$ 3,270	\$ 5,354	\$ 2,651	\$ 5,107	\$ 5,024	\$ 3,882	\$ 1,207	\$ 5,328
Shares	113.35	113.35	113.40	113.40	113.35	113.35	113.35	113.35
Earnings per share (cents) *	2.88	4.72	3.45	4.50	4.43	3.42	1.06	4.70
Earnings per share fully diluted (cents)	2.88	4.72	3.45	4.50	4.43	3.42	1.06	4.70

* 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

For the quarter, Central's available capital resources reached \$317.3 million, compared to \$257.4 million as at March 31, 2006. In December 2006, Central issued \$50 million of subordinated debt that qualifies as Tier 2 capital for regulatory purposes

Central's regulatory capital levels are determined according to both federal guidelines and provincial regulations. Central's federal capital adequacy borrowing multiple was below its targeted operating range and below that at March 31, 2006 and reflects the aforementioned recent issuance of subordinated debt. It was also well below the federal regulatory maximum. The multiple is projected to move toward Central's targeted range later in the fiscal year. Central's provincial risk-weighted ratio at 23.2% remains considerably higher than both Central's target and provincial requirements. This reflects not only the high quality and, hence, low risk weighting of securities in Central's liquidity portfolio, but also the issuance of subordinated debt in December 2006.

	March 31, 2007	March 31, 2006	Target	Regulatory Requirement
Borrowing Multiple	15.3:1	16.6:1	16:1 – 18:1	20:1
Risk-weighted Ratios	23.2%	20.6%	11 – 14%	10%

Central's Accounting Policies and Estimates

Central's Consolidated Interim Financial Statements, included in this Report to Members, have been prepared in accordance with GAAP as described in *Note 1* of the Interim Consolidated Financial Statements.

Changes in Accounting Policies

Effective January 1, 2007, Central adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments - Recognition and Measurement, Section 3861, Financial Instruments - Presentation and Disclosure, and Section 3865, Hedges.

As a result of the adoption of these standards, Central has recorded certain transition adjustments in opening retained earnings and accumulated other comprehensive income. The comparative Interim Consolidated Financial Statements have not been restated. A description of the impact on Central and a summary of the transition adjustments recorded on implementation are contained in *Note 2* to the Interim Consolidated Financial Statements.

Critical Accounting Estimates

The critical accounting estimates remain unchanged from those disclosed in Central's 2006 Annual Report.

Credit Union Central of British Columbia
Consolidated Balance Sheet
Unaudited

	Notes	(Thousands of dollars)		December 31 2006
		2007	March 31 2006	
Assets				
Cash		\$ 62,358	\$ 72,516	\$ 29,611
Securities	4	2,573,386	2,352,949	3,236,828
Amounts on deposit with regulated financial institutions	5	341,444	336,845	387,596
Loans	6	2,028,029	1,633,870	1,416,043
Capital assets		13,716	13,549	13,971
Other	7	110,503	102,276	93,036
		<u>\$ 5,129,436</u>	<u>\$ 4,512,005</u>	<u>\$ 5,177,085</u>
Liabilities				
Notes	8	\$ 1,056,284	\$ 900,720	\$ 755,831
Deposits	9	3,648,035	3,250,030	3,874,710
Other	10	110,043	103,884	233,940
		<u>4,814,362</u>	<u>4,254,634</u>	<u>4,864,481</u>
Subordinated debt	11	<u>50,221</u>	<u>-</u>	<u>49,807</u>
Members' Equity				
Shares		113,353	113,352	113,353
Retained earnings		153,715	144,019	149,444
Accumulated other comprehensive income		(2,215)	-	-
		<u>264,853</u>	<u>257,371</u>	<u>262,797</u>
		<u>\$ 5,129,436</u>	<u>\$ 4,512,005</u>	<u>\$ 5,177,085</u>
Commitments	12			

Approved by the Directors:

"Lorne Myhra"

Lorne Myhra, Vice-Chairperson

"C. McCreary"

C. McCreary, Chairperson - Audit Committee

Credit Union Central of British Columbia
Consolidated Statement of Income
Unaudited

(Thousands of dollars)

	Notes	For the three months ended	
		March 31 2007	March 31 2006
Interest Income			
Securities		\$ 27,648	\$ 24,139
Amounts on deposit with regulated financial institutions		3,700	1,611
Loans		22,110	13,979
		<u>53,458</u>	<u>39,729</u>
Interest Expense			
Notes		9,429	6,186
Deposits		36,226	27,999
Subordinated debt		578	-
		<u>46,233</u>	<u>34,185</u>
Interest Margin		7,225	5,544
Trading gains (losses)		(113)	799
Change in fair value of financial instruments	13	591	43
Net financial income		<u>7,703</u>	<u>6,386</u>
Other income	14	12,514	12,199
Net financial and other income		<u>20,217</u>	<u>18,585</u>
Operating Expenses			
Salaries and employee benefits		7,375	6,597
Premises and equipment, including depreciation		920	1,217
Other		5,708	4,242
		<u>14,003</u>	<u>12,056</u>
Income before income taxes		6,214	6,529
Income taxes	15	1,107	1,201
Net Income		<u>\$ 5,107</u>	<u>\$ 5,328</u>

See accompanying notes to the consolidated financial statements

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

(Thousands of dollars)

	Notes	For the three months ended	
		March 31 2007	March 31 2006
	<u> </u>	<u> </u>	<u> </u>
Net Income		\$ 5,107	\$ 5,328
Other comprehensive income			
Net unrealized gains on available-for-sale assets		278 ¹	
Reclassification of losses on available-for-sale assets to net income		97 ²	
		<u>375</u>	<u>0</u>
Net losses on derivative instruments designated as cash flow hedges		<u>(26) ³</u>	<u>-</u>
Other comprehensive income		<u>349</u>	<u>0</u>
Comprehensive income		<u>\$ 5,456</u>	<u>\$ 5,328</u>
Income taxes (recoveries) deducted from the above items			
¹ Net unrealized gains on available-for-sale assets		<u>\$ 62</u>	<u>\$ -</u>
² Reclassification of losses on available-for-sale assets to net income		<u>\$ 17</u>	<u>\$ -</u>
³ Gains and losses on derivative instruments designated as cash flow hedges		<u>\$ (6)</u>	<u>\$ -</u>

See accompanying notes to the consolidated financial statements

Credit Union Central of British Columbia
Consolidated Statement of Changes in Members' Equity
Unaudited

(Thousands of dollars)

	Notes	For the three months ended March 31 2007	March 31 2006
	<u> </u>	<u> </u>	<u> </u>
Share Capital			
Balance at beginning and end of period		\$ 113,353	\$ 113,352
<hr/>			
Retained Earnings			
Balance at beginning of period		\$ 149,444	\$ 140,330
Transition adjustments on adoption of new accounting policies	2	1,093	-
Net Income		5,107	5,328
Dividends		(2,341)	(2,033)
Related tax savings	15	412	394
Balance at end of period		<u>\$ 153,715</u>	<u>\$ 144,019</u>
<hr/>			
Accumulated Other Comprehensive Income (AOCI) (net of tax)			
Balance at beginning of period		\$ -	\$ -
Transition adjustments on adoption of new accounting policies	2	(2,564)	-
Other comprehensive income		349	-
Accumulated other comprehensive income		<u>\$ (2,215)</u>	<u>\$ -</u>
<hr/>			
Members' equity at end of period		<u>\$ 264,853</u>	<u>\$ 257,371</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 March 31
2007 2006

	2007	2006
Cash flows from operating activities		
Net income	\$ 5,107	\$ 5,328
Adjustments for:		
Depreciation	448	487
Gain on financial instruments	(478)	(842)
Net change in accrued interest	(6,716)	(7,999)
Other items, net	(50,749)	270
	(52,388)	(2,756)
Cash flows from financing activities		
Proceeds from issue of shares	-	-
Dividends - net of income taxes	(8,677)	(5,715)
Net change - settlements-in-transit	(85,301)	7,593
Net change - notes	299,500	548,691
Net change - deposits	(216,155)	(729,770)
Net change - subordinated debt	(145)	-
	(10,778)	(179,201)
Cash flows from investing activities		
Net change - securities	659,802	972,429
Net change - amounts on deposit with regulated financial institutions	46,061	61,811
Net change - loans	(609,757)	(845,045)
Capital asset acquisitions	(193)	(385)
	95,913	188,810
Increase (decrease) in cash resources	32,747	6,853
Cash resources - beginning of period	29,611	65,663
Cash resources - end of period	\$ 62,358	\$ 72,516
Supplemental Information		
Interest received	\$ 53,184	\$ 39,932
Interest paid	\$ 52,675	\$ 42,387

See accompanying notes to the consolidated financial statements

Credit Union Central of British Columbia
Notes to the March 31, 2007 Interim Consolidated Financial Statements
Unaudited

Credit Union Central of British Columbia (Central) is governed by 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 association 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, 2006.

1. Basis of presentation

The interim 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.

Except as described in note 2, these interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out Central's Consolidated Financial Statements for the year ended December 31, 2006. Under GAAP, additional disclosures are required in the annual financial statements and accordingly, these interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2006 and the accompanying notes.

2. Changes in Accounting Policies

Financial Instruments

Effective January 1, 2007 Central adopted three new accounting standards related to the recognition and measurement of financial instruments issued by the Canadian Institute of Chartered Accountants (CICA). These standards are contained in the CICA Handbook under Section 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3865, Hedges. In addition, Central implemented the presentation and disclosure requirements contained in Section 3861, Financial Instruments – Presentation and Disclosure.

The adoption of these new standards has resulted in changes in the accounting for Central's financial instruments and hedges. In implementing these new standards Central has recognized certain transition adjustments in opening retained earnings and accumulated other comprehensive income as described below.

Comprehensive Income

Comprehensive income consists of Central's net income and other comprehensive income. Central recognizes changes in fair value of securities and amounts on deposit with regulated financial institutions designated as available-for-sale and the effective portion of changes in fair value of derivative instruments designated as cash flow hedges in other comprehensive income, net of tax.

Credit Union Central of British Columbia
Notes to the March 31, 2007 Interim Consolidated Financial Statements
Unaudited

Financial Assets and Liabilities

Prior to adopting these new standards, Central classified all of its financial assets as trading securities, investment account securities or loans and receivables. Trading securities were accounted for at fair value and investment account securities and loans and receivables were accounted for at amortized cost, net of adjustments for other-than-temporary impairment. Central's financial liabilities, other than short positions, were accounted for on an accrual basis.

Under the new accounting standards, financial assets are classified or designated as trading, available-for-sale or loans and receivables which are accounted for as described below. Financial liabilities are classified either as trading or other liabilities with trading liabilities accounted for at fair value and other liabilities recognized at amortized cost. Transaction costs are expensed as incurred for financial instruments classified or designated as trading, and are capitalized upon initial recognition for other financial instruments

Financial assets designated as available for sale are carried at fair value with changes in fair value recorded in other comprehensive income. Securities classified as available-for-sale which do not have a readily available market value are recorded at cost. Available-for-sale assets are written down to fair value through income whenever it is necessary to reflect other-than-temporary impairment. On transition, securities with a carrying value \$3,179.1 million and amounts on deposit with regulated financial institutions with a carrying value of \$387.6 million were designated as available-for-sale.

Financial assets and liabilities classified as trading are purchased or incurred with the intention of generating profits in the near term. These instruments are accounted for at fair value with changes in fair value recognized in Change in fair value of financial instruments. On transition, no financial instruments were classified as trading.

Financial assets and liabilities, other than those classified as trading, may be designated by Central as trading if they are reliably measurable and meet one or more of the criteria set out below.

- a) Eliminate or significantly reduce valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognizes gains and losses on them, on a different basis; or
- b) Comprise assets, financial liabilities or combinations thereof that are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis.

On transition, securities with a carrying value of \$57.7 million and deposits with a carrying value of \$1,080.0 million were designated as trading.

Upon implementation of the new accounting standards, Central adopted the effective interest method of amortization for any transaction fees, premiums or discounts for financial assets which are not classified or designated as trading.

Where Central issues guarantees that meet the definition of a derivative, those guarantees are recognized at fair value and Central records changes in fair value of those derivatives in change in fair value of financial instruments.

Credit Union Central of British Columbia
Notes to the March 31, 2007 Interim Consolidated Financial Statements
Unaudited

Derivatives and Hedge Accounting

Central may be a party to derivatives which are embedded in other financial instruments (the “host instrument”). Prior to adoption of the new standards, such embedded derivatives were not accounted for separately from the host instrument. Upon adoption of the new standards, embedded derivatives are separated from the host instrument and recorded at fair value with changes in fair value recognized in net income when the economic characteristics of those derivatives are not closely related to the host instrument. The impact of this change in accounting policy on transition was not material.

At the inception of each hedging relationship, Central documents the relationship between the hedging instrument and the hedged item. Central identifies the relevant risk management strategy for undertaking the hedge, and identifies the method of accounting to be used for the hedging relationship. Both at inception and on an ongoing basis Central assesses the effectiveness of the hedging relationship in achieving the identified risk management strategy.

Prior to the implementation of the new standards, derivatives that met the requirements for hedge accounting were accounted for on an accrual basis. Under the new standards, all derivatives are recorded at fair value. At each reporting period, Central assesses the effectiveness of each of its hedging relationship and records the ineffective portion of such hedging relationships in net income in the period in which ineffectiveness arises.

Changes in fair value of derivatives which are designated and qualify as fair value hedging instruments are recognized in change in fair value of financial instruments along with changes in fair value of the hedged item that are attributable to the hedged risk. On transition, Central recorded a net decrease in the value of derivatives under fair value hedges of \$0.7 million. In addition, Central recorded a net increase in retained earnings of \$0.1 million as a reversal of transition balances deferred upon the adoption of AcG-13.

Derivatives designated and qualifying as cash flow hedges are recorded at fair value with the effective portion of the change in fair value recognized in other comprehensive income and the ineffective portion of the change in fair value included in net income. On transition, Central recorded a liability related to derivative instruments designated as cash flow hedges of \$0.3 million, of which \$0.1 million pre-tax was recorded in retained earnings and \$0.2 million pre-tax was recorded in accumulated other comprehensive income.

Derivatives held for trading are recorded at fair value with changes in fair value recognized in changes in fair value of financial instruments.

The table below summarizes the transition adjustments required to adopt the new standards.

Credit Union Central of British Columbia
Notes to the March 31, 2007 Interim Consolidated Financial Statements
Unaudited

	(Thousands of dollars)			
	<u>Retained Earnings</u>		<u>Accumulated other comprehensive income</u>	
	<u>Gross</u>	<u>Net of income taxes</u>	<u>Gross</u>	<u>Net of income taxes</u>
Classification of securities as available-for-sale	\$ -	\$ -	\$(2,072)	\$(1,705)
Classification of amounts on deposit with regulated financial institutions as available-for-sale			(778)	(650)
Classification of securities as trading	67	55		
Classification of deposits as trading	1,913	1,582		
Reversal of transition balances deferred upon adoption of AcG-13	89	89		
Reclassification of derivative instruments previously designated as hedging instruments as trading derivatives.	(574)	(466)		
Recognition of fair value of derivative instruments designated as fair value hedges	(127)	(103)		
Recognition of fair value of derivative instruments designated as cash flow hedges	<u>(67)</u>	<u>(64)</u>	<u>(250)</u>	<u>(209)</u>
	<u>\$ 1,301</u>	<u>\$ 1,093</u>	<u>\$(3,100)</u>	<u>\$(2,564)</u>

3. Fair value of financial instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market. Where independent quoted market prices do not exist, Central uses the quoted market prices for similar securities, other third party evidence or valuation techniques.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above. The

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use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates.

4. Securities

Securities designated as trading are as follows.

	(Thousands of dollars)		
	March 31 2007	March 31 2006	December 31 2006
Amortized cost	<u>\$ 66,762</u>	\$ -	\$ -
Fair value	<u>\$ 66,896</u>	\$ -	\$ -

Securities classified as available-for-sale or as investment account securities are as follows.

	(Thousands of dollars)		
	Available-for- sale March 31 2007	Investment Account March 31 2006	Investment Account December 31 2006
Amortized cost	<u>\$ 2,508,521</u>	<u>\$ 2,352,949</u>	<u>\$ 3,236,828</u>
Fair value	<u>\$ 2,506,490</u>	<u>\$ 2,353,358</u>	<u>\$ 3,234,582</u>

The total amount of securities recorded in the Interim Consolidated Balance Sheet is as follows.

	(Thousands of dollars)		
	March 31 2007	March 31 2006	December 31 2006
	<u>\$ 2,573,386</u>	<u>\$ 2,352,949</u>	<u>\$ 3,236,828</u>

At the period-end, securities having a book value of \$159.2 million (March 31, 2006 - \$188.5 million; December 31, 2006 - \$213.6 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.

5. Amounts on deposit with regulated financial institutions

	(Thousands of dollars)		
	Available-for- sale March 31 2007	Investment Account March 31 2006	Investment Account December 31 2006
Amortized cost	<u>\$ 341,809</u>	<u>\$ 336,845</u>	<u>\$ 387,596</u>
Fair value	<u>\$ 341,444</u>	<u>\$ 336,946</u>	<u>\$ 386,816</u>

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6. Loans

		(Thousands of dollars)		
		March 31	March 31	December 31
		2007	2006	2006
Due on demand - Credit unions		\$ 23,546	\$ 33,662	\$ 33,644
	- Co-operatives and others	<u>17,579</u>	<u>26,667</u>	<u>1,302</u>
		<u>41,125</u>	<u>60,329</u>	<u>34,946</u>
Term	- Credit unions	1,915,151	1,540,657	1,350,892
	- Co-operatives & others	53,200	18,197	13,197
	- Officers and employees	<u>14,452</u>	<u>12,602</u>	<u>15,136</u>
		<u>1,982,803</u>	<u>1,571,456</u>	<u>1,379,255</u>
		2,023,928	1,631,785	1,414,171
Accrued interest		<u>5,224</u>	<u>2,413</u>	<u>2,995</u>
		2,029,152	1,634,198	1,417,166
Allowance for losses (specific)		<u>1,123</u>	<u>328</u>	<u>1,123</u>
		<u>\$ 2,028,029</u>	<u>\$ 1,633,870</u>	<u>\$ 1,416,043</u>

Officer and employee loans bear interest at rates varying from 2.227% to 5.185%.

7. Other Assets

		(Thousands of dollars)		
		March 31	March 31	December 31
		2007	2006	2006
Market revaluation of trading derivatives		\$ 27,041	\$ 30,827	\$ 34,103
Loans held for sale		75,720	65,725	53,761
Accounts receivable		3,122	2,559	2,225
Prepaid expenses		2,917	1,656	1,399
Future income taxes (note 15)		<u>1,703</u>	<u>1,509</u>	<u>1,548</u>
		<u>\$ 110,503</u>	<u>\$ 102,276</u>	<u>\$ 93,036</u>

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8. Notes

	(Thousands of dollars)		
	March 31 2007	March 31 2006	December 31 2006
Operating lines			
- with Credit Union Central of Canada	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 4,860</u>
Notes			
- due within three months	603,112	398,372	298,732
- due after three months and within one year	224,751	50,000	124,956
- due after one year and less than five years	<u>225,000</u>	<u>450,000</u>	<u>324,815</u>
	<u>1,052,863</u>	<u>898,372</u>	<u>748,503</u>
	1,052,863	898,372	753,363
Accrued interest	<u>3,421</u>	<u>2,348</u>	<u>2,468</u>
	<u>\$ 1,056,284</u>	<u>\$ 900,720</u>	<u>\$ 755,831</u>

Central has established \$293.0 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits except for any notes that may be shown as secured.

At March 31, 2007 **\$0.0** million was borrowed under these facilities (March 31, 2006 - \$0.0 million; December 31, 2006 - \$4.8 million).

Central is authorized to issue up to \$1 billion in short term commercial paper and up to \$1 billion in other borrowings which includes Central's mid term note facility. At March 31, 2007, **\$603.1** million was borrowed under the short term commercial paper facility (March 31, 2006 - \$398.4 million; December 31, 2006 - \$298.7 million) and **\$450.0** million was borrowed under the mid term note facility (March 31, 2006 - \$500.0 million; December 31, 2006 - \$450.0 million).

9. Deposits

Deposits designated as trading are as follows.

	(Thousands of dollars)		
	March 31 2007	March 31 2006	December 31 2006
Book value	<u>\$ 1,148,290</u>	\$ <u> -</u>	\$ <u> -</u>
Fair value	<u>\$ 1,146,580</u>	\$ <u> -</u>	\$ <u> -</u>

Deposits classified as other liabilities are as follows.

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(Thousands of dollars)

	March 31 2007	March 31 2006	December 31 2006
Due on demand	\$ 172,862	\$ 182,479	\$ 160,865
Due within three months	986,589	732,762	1,552,387
Due after three months and within one year	451,240	1,029,457	909,135
Due after one year and less than five years	859,678	1,260,883	1,194,927
Due after five years and less than six years	<u>911</u>	<u>1,825</u>	<u>375</u>
	2,471,280	3,207,406	3,817,689
Accrued interest	<u>30,175</u>	<u>42,624</u>	<u>57,021</u>
	<u>\$ 2,501,455</u>	<u>\$ 3,250,030</u>	<u>\$ 3,874,710</u>

The total amount of deposits recorded in the Interim Consolidated Balance Sheet is as follows.

(Thousands of dollars)

	March 31 2007	March 31 2006	December 31 2006
	<u>\$ 3,648,035</u>	<u>\$ 3,250,030</u>	<u>\$ 3,874,710</u>

10. Other Liabilities

(Thousands of dollars)

	March 31, 2007	March 31, 2006	December 31 2006
Market revaluation of trading derivatives	\$ 24,076	\$ 29,029	\$ 29,978
Settlements-in-transit	66,375	57,337	151,676
Securities sold under repurchase agreements	-	-	25,139
Dividends	2,341	2,033	9,089
Future income taxes (note 15)	939	674	643
Accrued vacation and sick benefits	1,279	2,140	1,523
Employee future benefits	10,497	8,562	9,924
Trade amounts and other	<u>4,536</u>	<u>4,109</u>	<u>5,968</u>
	<u>\$ 110,043</u>	<u>\$ 103,884</u>	<u>\$ 233,940</u>

11. Subordinated debt

On December 21, 2006, Central issued a \$50 million note due December 21, 2016. The note bears interest at a fixed rate of 4.523% until December 21, 2011, and thereafter at a floating rate based on the 90-day

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Banker's Acceptance Rate. Central has the option to redeem the note on December 21, 2011, subject to regulatory approval.

The note is recognized in the Consolidated Financial Statements at par value, net of unamortized transaction costs.

12. Commitments

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. The amounts in the table below indicate the notional amounts of these off balance sheet arrangements. As discussed in Note 2, Central recognizes the fair value of these instruments in the Interim Consolidated Balance Sheet with changes in fair value recognized in net income in the period of the change.

(Thousands of dollars)	Contractual amounts		
	March 31 2007	March 31 2006	December 31 2006
Financial instruments whose contract amounts could represent credit risk:			
- commitments to extend credit	\$ 1,535,118	\$ 1,310,228	\$ 1,528,829
- standby letters of credit and financial guarantees	198,497	149,592	633,868
- commitments to accept deposits at agreed rates and terms	111,529	408,440	318,653

13. Change in fair value of financial instruments

Trading gains and change in change in fair value of financial instruments consist of the following.

	(Thousands of dollars)	
	For the three months ended	
	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Securities – trading	\$ 67	-
Deposits – trading	(202)	-
Trading derivatives	<u>726</u>	<u>43</u>
	<u>\$ 591</u>	<u>\$ 43</u>

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14. Other Income

		(Thousands of dollars)	
		For the three months ended	
		<u>March 31, 2007</u>	<u>March 31, 2006</u>
Membership Dues		\$ 1,143	\$ 815
Provincial Advertising Assessment		609	609
Technology & Payment - Processing		5,019	4,817
Services	- Technical Operations	413	373
	- Internet banking	1,904	2,045
Financial Services	- Treasury Services	229	295
	- Funding Services	322	261
	- Property rents	322	275
	- Other	603	773
Trade Services	- Risk Management	501	417
	- Manuals	244	240
	- Registered Plans	467	460
	- Other	<u>738</u>	<u>819</u>
		<u>\$ 12,514</u>	<u>\$ 12,199</u>

15. Provision for income taxes

Income taxes reported in net income are as follows:

		(Thousands of dollars)	
		For the three months ended	
		<u>March 31, 2007</u>	<u>March 31, 2006</u>
Provision for income taxes in statement of Income		\$ 1,107	\$ 1,201
Income tax benefit related to dividends accrued		<u>412</u>	<u>394</u>
Total		<u>\$ 695</u>	<u>\$ 807</u>

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Components of total income taxes are as follows:

Current income taxes	\$ 824	\$ 877
Future income taxes	<u>(129)</u>	<u>(70)</u>
Total	<u>\$ 695</u>	<u>\$ 807</u>

Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 34.1% (2006 – 34.1%) to income before taxes. The reasons for this are as follows:

	(Percentage of pre-tax income)	
	For the three months ended	
	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Combined federal and provincial statutory income tax rates	34.1	34.1
Reduction available to credit unions	(16.0)	(16.0)
Other	<u>(0.3)</u>	<u>0.3</u>
Total	<u>17.8</u>	<u>18.4</u>

Components of future income tax balances are as follows:

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(Thousands of dollars)

	March 31	March 31	December 31
	2007	2006	2006
Future income tax assets:			
Financial instruments	\$ 65	\$ -	\$ -
Employee future benefits	<u>1,638</u>	<u>1,509</u>	<u>1,548</u>
	<u>1,703</u>	<u>1,509</u>	<u>1,548</u>
Future income tax liabilities:			
Financial instruments	295	-	-
Premises and equipment	439	465	444
Computer hardware and software	<u>205</u>	<u>209</u>	<u>199</u>
Total	<u>939</u>	<u>674</u>	<u>643</u>
	<u>\$ 765</u>	<u>\$ 835</u>	<u>\$ 905</u>

No valuation allowance has been recorded against the future income tax assets as Central has determined that it is more likely than not that the future income tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

16. Comparative amounts

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

17. Proposed merger

Subsequent to the period-end, Central entered into an agreement with Credit Union Central of Ontario Limited (CUCO) to combine their operations. The combination of Central and CUCO must be approved by the membership of CUCO and is subject to regulatory consent and member approval of changes to Central's Constitution and Rules.