

SYSTEM MAINTAINS EARNINGS MOMENTUM

Second quarter highlights compared to the same period last year:

- System operating income of \$63.8 million, versus \$63.5 million
- Central's net income of \$5.03 million, up 30.0% from \$3.87 million
- System assets of \$32.7 billion, up 9.3% from \$29.9 billion
- System risk-weighted capital remains strong at 13.6%

British Columbia credit unions, collectively referred to as the system, continue their momentum in a climate of low interest rates and a robust provincial economy. B.C. credit unions earned \$63.8 million before taxes, dividends and patronage refunds in the second quarter of 2005. Year-to-date, system net operating income was \$131.7 million, an increase of 7.5% from last year's \$122.5 million. Combined assets for the system rose 9.3%, year-over-year, to reach \$32.7 billion at quarter-end.

Demand for loans remains high as total system net loans increased by 9.8% year-over-year, to reach \$27.5 billion. Commercial and personal loans secured by real estate grew by 21.1% and 9.7%, respectively. System loan delinquencies over 90 days remain near record lows, reaching 0.27% of total loans compared to 0.41% a year ago.

Credit Union Central of British Columbia (Central), the central financial facility and trade association for B.C. credit unions, had an outstanding quarter. Net income was \$5.03 million and assets increased 6.7% to \$4.1 billion from the same period last year.

Management's Discussion and Analysis as at August 18, 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 six-month period ended June 30, 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.

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.

Overall Performance and Interim Financial Condition

Central had a strong second quarter in 2005, achieving a net income of \$5.03 million, or 4.4 cents a share compared to \$3.87 million and 3.4 cents last year. Net financial income of \$8.44 million improved from the \$6.69 million recorded for the second quarter of 2004 with the increase attributable to higher securities trading income. For the six-month period ending June 30, net financial income was \$14.10 million compared to \$14.68 million from the same period last year with the shortfall attributable to lower trading gains in 2005.

During the year ⁽¹⁾, Central changed its method of accruing interest on its securities holdings to the constant yield method. The impact on net financial income for the six-

month period, ending June 30, 2005, was to increase interest margin by \$0.50 million and to reduce trading gains by \$1.17 million. Other income for the quarter of \$11.32 million was slightly higher than that of last year's \$10.47 million, but operating expenses of \$13.50 million were also higher than the \$12.47 million of last year.

The system continues its strong performance. System net operating income for the quarter was \$63.8 million, compared to \$63.5 million for the second quarter of 2004. For the six months ending June 30th, financial margin and non-financial income both improved over last year while increases in non-financial expenses were more modest. Total net system loans were \$27.5 billion, an increase of 9.8% from \$25.0 billion as at June 30, 2004. Residential mortgage loans increased by 9.7%; however, commercial mortgage loans grew by 21.1%.

Central's and the system's financial condition remain solid and are comparable to that of June 30, 2004. Capital ratios remain strong. Central's risk-weighted capital ratio was 23.6% ⁽²⁾ and its borrowing multiple was 15.9:1. System risk-weighted capital was 13.6% ⁽²⁾. 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 11.8% of system assets from 12.3% as at June 30, 2004.

⁽¹⁾ See Note (2) to the financial statements.

⁽²⁾ 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 reflect the change in regulations.

FOR THE THREE MONTHS ENDED

	June 30, 2005	June 30, 2004 (Restated)	Increase/Decrease
Central			
Earnings			
Net Financial Income (\$ millions)	8.44	6.69	1.75
Net Financial and Other Income (\$ millions)	19.76	17.16	2.60
Net Income (\$ millions)	5.03	3.87	1.16
Earnings Per Share (cents)			
Basic	4.4	3.4	1.0
Diluted	4.4	3.4	1.0
Return On:			
Average Assets (%)	0.48	0.42	0.06
Average Equity (%)	8.48	6.94	1.54
Balance Sheet Data (\$ billions)			
Total Assets	4.12	3.86	0.26
Average Assets	4.16	3.80	0.36
Long-term Financial Liabilities	1.61	1.22	0.39
Share Information			
Outstanding \$1 Par Value Shares (\$1,000's)			
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) (cents)	1.2	1	0.2
System (unaudited)			
Net Operating Income (\$ millions)	63.80	63.50	0.30
Total Assets (\$ billions)	32.70	29.90	2.80
Number of Credit Unions	54	58	(4)

Total Revenues

Net Financial Income

Net financial income was \$8.44 million for the quarter compared to \$6.69 million for the same period last year. Interest margin, at \$5.58 million, was flat to last year's \$5.64 million (which reflects the aforementioned change in accounting policy), despite 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. These factors continue to limit Central's ability to improve financial margin. Trading gains, as adjusted for the change in accounting policy, and inclusive of changes in fair value, were \$2.86 million, or more than twice that of last year's \$1.05 million. The realization of gains in the securities portfolio results from the continuing low interest rate environment. However, the opportunities for further trading gains will be limited.

Other Income

Central's other income for the quarter of \$11.32 million was up substantially from last year's \$10.47 million. Income from payments processing, which represents 45% of other income, was the major factor contributing to the increase in other income. All other sources individually represent less than 15% of other income.

Operating Expenses

Operating expenses for the quarter increased to \$13.50 million, compared to \$12.47 million last year, primarily due to higher salary and benefit costs. However, on a year-to-date basis, operating expenses were \$26.0 million, an increase of only \$0.3 million from \$25.7 million for the same period last year.

Balance Sheet

Cash and Securities and Liquidity Management

Central's assets increased by \$260 million to \$4.12 billion from \$3.86 billion as at June 30, 2005, reflecting deposit growth from members and an increase in medium-term notes outstanding. Cash and securities increased \$200 million from one year ago. Loans to members increased by \$38 million to \$910 million. At \$3,167 million, cash and securities represents almost 77% of Central's assets. 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. In July 2005, Central borrowed an additional \$100 million for a five-year term to augment its lending program to member credit unions.

Loans and Off-Balance Sheet Arrangements

Loans, which are almost entirely secured loans to member credit unions, increased to \$910 million from \$873 million last year. Strong real estate markets continue to drive consumer loan demand, which in turn has driven borrowing by credit unions. In January 2004, Central lowered its 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 June 30, assets securitized by the system through Central were as follows:

\$ millions	JUNE 30, 2005	JUNE 30, 2004
Residential Mortgages	\$1,560.1	\$1,194.7
Commercial Mortgages	134.6	215.5
Total Securitized	\$1,694.7	\$1,410.2

Last year's strong pace of securitization of residential mortgages continued in 2005 as credit unions manage their liquidity and capital positions. Securitization of commercial mortgages has, for now, ceased as a result of an increase 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. 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 (*Restated*)

	2005/2004				2004/2003			
	Period Ended				Period Ended			
	30-Jun-05	31-Mar-05	31-Dec-04	30-Sep-04	30-Jun-04	31-Mar-04	31-Dec-03	30-Sep-03
<i>(Thousand of Dollars)</i>								
Total Interest Income	\$ 33,454	\$ 32,925	\$ 32,625	\$ 28,757	\$ 29,744	\$ 30,376	\$ 31,947	\$ 33,862
Total Interest Expense	27,877	27,910	27,395	24,561	24,104	25,902	27,237	27,973
Net Interest Income	5,577	5,015	5,230	4,196	5,640	4,474	4,710	5,889
Trading Gains & Changes in Fair Value	2,860	647	121	770	1,048	3,514	940	1,796
Provision for Losses			(328)					
Non-Interest Income	11,321	10,742	11,706	10,295	10,467	11,398	10,925	10,273
Non-Interest Expense	(13,501)	(12,485)	(16,618)	(12,340)	(12,468)	(13,228)	(12,529)	(11,913)
Income Taxes	(1,232)	(831)	(36)	(706)	(821)	(1,302)	(1,056)	(1,214)
Net Income	\$ 5,025	\$ 3,088	\$ 75	\$ 2,215	\$ 3,866	\$ 4,856	\$ 2,990	\$ 4,831
Earnings per Share *	4.43	2.72	0.07	1.95	3.41	4.60	2.83	4.58
Earnings per Share fully diluted	4.43	2.72	0.07	1.95	3.41	4.60	2.83	4.58

*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 \$243.5 million, compared to \$237.5 million as at June 30, 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.

The previously mentioned change in accounting policy with respect to Central's method of interest accrual on securities resulted in a restatement of retained earnings as at December 31, 2004 to \$124.3 million compared to \$119.7 million, as previously reported.

Central's federal capital adequacy ratio was well within its targeted operating range and on par with that at June 30, 2004. Central's provincial risk-weighted ratio at 23.7% was considerably higher than Central's target, and reflects the relatively low risk weighting, as recently amended ⁽¹⁾, of the majority of securities in Central's liquidity portfolio and the 20% risk-weighting of loans to member credit unions.

	JUNE 30, 2005	JUNE 30, 2004 <i>(Restated)</i>	TARGET
Borrowing Multiple	15.9:1	15.7:1	16:1 – 18:1
Risk-weighted Ratios ⁽¹⁾	23.6%	17.3%	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 as at June 30, 2005, but not June 30, 2004, for Central and the system 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

		June 30	(000's) December 31
	2005	2004	2004
Assets			
		(Restated)	(Restated)
		(Note 2)	(Note 2)
Cash	\$ 28,816	\$ 125,471	\$50,533
Securities	3,138,522	2,842,186	3,573,589
Loans	910,370	872,863	745,290
Land, Buildings & Equipment	10,193	10,582	10,648
Other	34,836	11,821	25,130
	<u>\$4,122,737</u>	<u>\$3,862,923</u>	<u>\$4,405,190</u>
Liabilities			
Deposits & Notes	\$3,782,986	\$3,559,189	\$4,114,986
Other	93,461	64,034	47,688
Dividends	2,784	2,205	4,885
	<u>3,879,231</u>	<u>3,625,428</u>	<u>4,167,559</u>
Equity			
Shares	113,352	113,352	113,352
Retained Earnings	130,154	124,143	124,279
	<u>243,506</u>	<u>237,495</u>	<u>237,631</u>
	<u>\$4,122,737</u>	<u>\$3,862,923</u>	<u>\$4,405,190</u>

Approved by the Directors:

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

"Ross Montgomery"
R. Montgomery, Chairperson - Audit Committee

Credit Union Central of British Columbia
Consolidated Statement of Income and Retained Earnings
Unaudited

	(000's)		(000's)	
	For the three months ended June 30 2005	June 30 2004	For the period ended June 30 2005	June 30 2004
		(Restated) (Note 2)		(Restated) (Note 2)
Financial Income				
Loans	\$6,836	\$5,512	\$14,256	\$11,134
Securities	26,618	24,232	52,123	48,986
	<u>33,454</u>	<u>29,744</u>	<u>66,379</u>	<u>60,120</u>
Financial Expense				
Deposits	25,185	22,586	50,608	46,516
Borrowed funds	2,692	1,518	5,179	3,490
	<u>27,877</u>	<u>24,104</u>	<u>55,787</u>	<u>50,006</u>
Interest Margin	5,577	5,640	10,592	10,114
Securities - trading	2,431	1,080	3,294	4,480
Change in fair value	429	(32)	213	82
Net financial income	<u>8,437</u>	<u>6,688</u>	<u>14,099</u>	<u>14,676</u>
Other income	11,321	10,467	22,063	21,865
Net interest and other income	<u>19,758</u>	<u>17,155</u>	<u>36,162</u>	<u>36,541</u>
Operating Expenses				
Salaries	6,344	5,878	12,517	11,615
Premises and equipment, including depreciation	1,402	1,342	2,559	2,562
Other	5,755	5,248	10,910	11,519
	<u>13,501</u>	<u>12,468</u>	<u>25,986</u>	<u>25,696</u>
Income before the following	6,257	4,687	10,176	10,845
Income taxes	1,232	821	2,063	2,123
Net Income	<u>\$5,025</u>	<u>\$3,866</u>	<u>\$8,113</u>	<u>\$8,722</u>
Retained Earnings, beginning of period as previously stated	\$122,063	\$116,617	\$119,666	\$112,094
Adjustment to reflect change in accounting policy (Note 2)	4,192	4,505	4,613	5,101
Retained earnings, beginning of period	126,255	121,122	124,279	117,195
Net Income	5,025	3,866	8,113	8,722
Dividends	(1,401)	(1,050)	(2,784)	(2,206)
Related income tax savings	275	205	546	432
Retained Earnings, end of period	<u>\$130,154</u>	<u>\$124,143</u>	<u>\$130,154</u>	<u>\$124,143</u>

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

	(000's)		(000's)	
	For the three months ended		For the period ended	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004
		(Restated)		(Restated)
Cash flows from operating activities				
Net Income	\$5,025	\$3,866	\$8,113	\$8,722
Adjustments for:				
Depreciation	298	499	601	1,015
Other items, net	(16,763)	(1,277)	2,667	(2,624)
Net change in accrued interest	727	(6,701)	(23,551)	(7,998)
	<u>(10,713)</u>	<u>(3,613)</u>	<u>(12,170)</u>	<u>(885)</u>
Cash flows from financing activities				
Issue of shares	-	7,867	-	7,867
Dividends - net of income taxes	275	205	(4,339)	(5,631)
Net change - Settlements in transit	38,236	28,655	33,400	31,011
Net change in deposits and notes	11,452	46,140	(324,588)	(98,638)
	<u>49,963</u>	<u>82,867</u>	<u>(295,527)</u>	<u>(65,391)</u>
Cash flows from investing activities				
Net change in securities	(219,557)	(20,970)	450,300	609,970
Net change in loans	187,440	46,795	(164,174)	(431,489)
Net change in premises and equipment	(73)	(87)	(146)	(89)
	<u>(32,190)</u>	<u>25,738</u>	<u>285,980</u>	<u>178,392</u>
Increase (decrease) in cash resources	7,060	104,992	(21,717)	112,116
Cash resources - beginning of period	21,756	20,479	50,533	13,355
Cash resources - end of period	<u>\$28,816</u>	<u>\$125,471</u>	<u>\$28,816</u>	<u>\$125,471</u>
Supplemental Information				
Interest received	<u>\$30,265</u>	<u>\$31,613</u>	<u>\$50,240</u>	<u>\$62,413</u>
Interest paid	<u>\$23,665</u>	<u>\$31,352</u>	<u>\$63,199</u>	<u>\$57,982</u>
Income taxes paid	<u>\$2,144</u>	<u>\$1,200</u>	<u>\$2,144</u>	<u>\$1,843</u>
Employee Future Benefits expense	<u>\$384</u>	<u>\$246</u>	<u>\$714</u>	<u>\$494</u>

Credit Union Central of British Columbia

Notes to the June 30, 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.

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 in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2004.

2. Change in Accounting Policy

During the year, Credit Union Central of British Columbia 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 effects of this change are as follows on prior period amounts included in the accompanying financial statements:

	Period Ended June 30	
	<u>2005</u>	<u>2004</u>
	(in 000's)	
Increase in retained earnings at beginning of year due to impact of increased accrued interest at December 31, 2004 and December 31, 2003 respectively	\$ 4,613	\$ 5,101
Decrease in net earnings for period due to impact of increased interest accrual in prior periods	N/A	(125)
	<u>\$ 4,613</u>	<u>\$ 4,976</u>

3. Comparative amounts

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