

# Second Quarter Report 2006

## REPORT TO MEMBERS

### SYSTEM <sup>(1)</sup> – STEAMS AHEAD IN SECOND QUARTER

Second quarter highlights compared to the same period last year:

- System operating income <sup>(2)</sup> of \$73.30 million, versus \$63.78 million
- Central's net income of \$3.27 million, compared to \$5.02 million <sup>(3)</sup>
- System assets of \$37.2 billion, up 13.8% from \$32.7 billion

British Columbia credit unions, collectively referred to as the system, continue to perform well in a climate of a strong provincial economy, record low unemployment and robust residential housing markets. The system earned \$73.30 million before taxes, dividends and patronage refunds in the second quarter of 2006. Combined assets for the system rose 13.8%, year-over-year, to reach \$37.2 billion at quarter-end.

Demand for loans remains high as total system net loans increased by 15.8% year-over-year, to reach \$31.8 billion. Commercial and personal loans secured by real estate grew by 23.5% and 15.0%, year-over-year respectively. System loan delinquencies over 90 days are at record lows, reaching 0.18% of total loans compared to 0.27% a year ago.

Credit Union Central of British Columbia (Central), the central financial facility and trade association for B.C. credit unions, had a reasonable quarter. Net income was \$3.27 million compared to \$5.02 million for the same period last year. Assets increased 9.8% to \$4.5 billion from \$4.1 billion as at June 30, 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) System operating income is equivalent to income from recurring operations and does not include extraordinary items, patronage dividends or income taxes.
- (3) In 2005, Central made changes to its accounting policies which are described in *Note 2(1)* 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 June 30, 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 six-month period ended June 30, 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 consolidated 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 respectable second quarter in 2006, achieving net income of \$3.27 million, or 2.88 cents a share compared to \$5.02 million or 4.43 cents a share last year. Net financial income of \$6.98 million decreased from the \$8.44 million recorded in the second quarter of 2005 with most of the decrease due to significantly lower trading gains compared to last year.

Other income of \$11.86 million for the quarter was higher than last year's \$11.24 million, primarily due to higher payment processing and Internet banking revenues. Operating expenses of \$14.27 million were higher compared to the \$13.42 million incurred last year. Income tax expense during the quarter was adversely affected by a one-time adjustment to net future income tax assets to reflect decreases in statutory income tax rates.

The system rebounded from a challenging first quarter. System net operating income for the quarter was \$73.30 million, compared to \$63.78 million for the second quarter of 2005. For the six-month period ending June 30, 2006, system net operating income was \$144.52 million compared to \$143.42 million for the same period last year. Financial margin and non-financial income both improved over last year, and more than compensated for an increase in non-financial expense. System financial margin for the first half improved by 6.7% 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 June 30, 2005. Capital ratios remain strong. Central's risk-weighted capital ratio was 23.0% and its borrowing multiple was 16.3:1. System risk-weighted capital was 12.9%. 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, which decreased to 10.3% of system assets from 11.8% as at June 30, 2005, improved from 10.1% as at March 31, 2006. 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, however, the major factor in the lower liquidity levels compared to last year.

	Unaudited For the Three Months Ended June 30, 2006	Unaudited For the Three Months Ended June 30, 2005	Increase/ (Decrease)
<b>Central Earnings</b>			
Net Financial Income ( <i>\$ millions</i> )	6.98	8.44	(1.46)
Net Financial and Other Income ( <i>\$ millions</i> )	18.84	19.67	(0.83)
Net Income ( <i>\$ millions</i> )	3.27	5.02	(1.75)
Earnings Per Share ( <i>cents</i> )			
Basic	2.88	4.43	(1.55)
Diluted	2.88	4.43	(1.55)
Return On:			
Average Assets (%)	0.30	0.48	(0.18)
Average Equity (%)	5.11	8.11	(3.00)
<b>Balance Sheet Data ( \$ billions)</b>			
Total Assets	4.48	4.13	0.35
Average Assets	4.38	4.22	0.16
Long-term Financial Liabilities	1.69	1.61	0.08
<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> )	2.05	1.23	0.82
<b>System</b>			
Net Operating Income ( <i>\$ millions</i> )	73.30	63.78	9.52
Total Assets ( <i>\$ billions</i> )	37.2	32.7	4.5
Number of Credit Unions	52	54	(2)

## Total Revenues

### Net Financial Income

Central's net financial income was \$6.98 million for the quarter compared to \$8.44 million for the same period last year. Interest margin, at \$6.49 million, was improved from last year's \$5.58 million. Higher interest rates and increased interest rate swap spreads are the factors that have contributed to improved interest margin relative to previous years. Trading gains, inclusive of changes in fair value, were \$0.49 million, significantly less than that of last year's \$2.86 million. The realization of gains in the securities portfolio has diminished as the Bank of Canada has raised short-term interest rates. For the six month period ending June 30, net financial income was \$13.37 million compared to \$14.10 million for the same period last year. Improvements in interest margin compensated for much of the decrease in trading gains compared to last year.

### Other Income

Central's other income for the quarter of \$11.86 million improved from last year's \$11.24 million. The comparative amounts for the six months ending June 30 are \$24.38 million and \$21.91 million, respectively. On the back of higher volumes, income from payments processing and Internet banking continues to increase. Management anticipates that this

trend will continue as Central extends these lines of business to entities outside the system. In addition, Central received an income distribution from Credit Union Central of Canada (CUCC) of \$0.66 million during the first quarter, versus \$0.17 million last year.

### Operating Expenses

Operating expenses increased to \$14.27 million for the quarter from the \$13.42 million of last year and to \$26.65 million from \$25.83 million for the six-month period. Higher salary and benefit costs, mostly attributable to higher levels of technology department staffing and increases in benefit and future benefit costs, were the major factors in the increase over last year.

### Income Taxes

Central's income tax expense for the quarter was \$1.29 million which compares to \$1.23 million last year. Central also recorded a tax recovery for accrued dividends of \$0.45 million in the quarter, versus \$0.28 during the same period last year. In April of this year, the Federal Government announced a series of reductions in the federal tax rate for corporations which will be phased-in between 2007 and 2010. Tax expense for the quarter includes a charge of \$0.22 million to reduce the value of net future income tax assets as a result of this change in tax rates.

## **Balance Sheet**

### Cash and Securities and Liquidity Management

Central's assets increased by \$352 million to \$4.5 billion from \$4.1 billion as at June 30, 2005, reflecting strong loan growth from members. To fund this loan growth, Central issued an additional \$225 million of medium-term notes in the first quarter of 2006. At \$2,554 million, cash and securities represent over 57% 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 \$1,833 million from \$910 million 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 June 30, assets securitized by the system through Central were as follows:

\$ millions	JUNE 30, 2006	JUNE 30, 2005
Residential Mortgages	\$2,106	\$1,560
Commercial Mortgages	72	135
Total Securitized	\$2,178	\$1,695

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 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 (Unaudited)**

<i>(Thousands of Dollars)</i>	2006/2005				2005/2004			
	Period Ended				Period Ended			
	30-Jun-06	31-Mar-06	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05	31-Dec-04	30-Sep-04
Total Interest Income	45,239	\$ 39,648	\$ 37,725	\$ 33,906	\$ 33,454	\$ 32,925	\$ 32,626	\$ 28,757
Total Interest Expense	38,745	34,104	31,320	28,697	27,878	27,909	27,395	24,561
Interest Margin	6,494	5,544	6,405	5,209	5,576	5,016	5,231	4,196
Trading Gains	87	799	46	1,311	2,431	863	71	547
Change in Fair Value	398	43	(194)	(290)	429	(216)	50	223
Provision for credit losses							(328)	
Other Income	11,857	12,535	12,253	11,075	11,238	10,668	11,110	10,295
Operating Expenses	(14,272)	(12,392)	(17,041)	(12,556)	(13,417)	(12,412)	(16,023)	(12,340)
Income Taxes	(1,294)	(1,201)	(263)	(867)	(1,233)	(830)	(36)	(706)
<b>Net Income</b>	<b>\$ 3,270</b>	<b>\$ 5,328</b>	<b>\$ 1,206</b>	<b>\$ 3,882</b>	<b>\$ 5,024</b>	<b>\$ 3,089</b>	<b>\$ 75</b>	<b>\$ 2,215</b>
Shares	113.35	113.35	113.35	113.35	113.35	113.35	113.35	113.35
Earnings per share (cents) *	2.88	4.70	1.06	3.42	4.43	2.73	0.07	1.95
Earnings per share fully diluted (cents)	2.88	4.70	1.06	3.42	4.43	2.73	0.07	1.95

\* 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 \$258.8 million, compared to \$251.3 million as at June 30, 2005.

Central's federal capital adequacy ratio was within its targeted operating range and on par with that at June 30, 2005. Central's provincial risk-weighted ratio at 23.0% 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>JUNE 30, 2006</b>	<b>JUNE 30, 2005</b>	<b>TARGET</b>
Borrowing Multiple	16.3:1	15.6:1	16:1 – 18:1
Risk-weighted Ratios	23.0%	21.6%	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>	June 30	2005	2005
		<u>        </u>	<u>        </u>	<u>        </u>
<b>Assets</b>				
			<b>(Restated)</b>	
			<b>(Note 2)</b>	
Cash		\$ 174,068	\$ 28,816	\$ 65,663
Securities	3	2,380,053	3,096,733	3,727,475
Loans	4	1,833,488	910,370	787,433
Capital assets		13,675	14,336	13,651
Other	5	81,779	80,406	82,999
		<u>\$ 4,483,063</u>	<u>\$ 4,130,661</u>	<u>\$ 4,677,221</u>
<b>Liabilities</b>				
Notes	6	\$ 865,408	\$ 398,244	\$ 350,716
Deposits	7	3,226,295	3,384,742	3,989,426
Dividends		4,354	2,784	6,109
Other	8	128,235	93,621	77,288
		<u>4,224,292</u>	<u>3,879,391</u>	<u>4,423,539</u>
<b>Members' Equity</b>				
Shares		113,352	113,352	113,352
Retained earnings		145,419	137,918	140,330
		<u>258,771</u>	<u>251,270</u>	<u>253,682</u>
		<u>\$ 4,483,063</u>	<u>\$ 4,130,661</u>	<u>\$ 4,677,221</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**

Notes	(Thousands of dollars)		(Thousands of dollars)	
	For the three months ended		For the six months ended	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005
		<b>(Restated)</b> <b>(Note 2)</b>		<b>(Restated)</b> <b>(Note 2)</b>
Interest Income				
Securities	\$ 26,865	\$ 26,618	\$ 52,535	\$ 52,123
Loans	<u>18,374</u>	<u>6,836</u>	<u>32,352</u>	<u>14,256</u>
	<u>45,239</u>	<u>33,454</u>	<u>84,887</u>	<u>66,379</u>
Interest Expense				
Notes	8,434	2,692	14,539	5,179
Deposits	<u>30,311</u>	<u>25,186</u>	<u>58,310</u>	<u>50,608</u>
	<u>38,745</u>	<u>27,878</u>	<u>72,849</u>	<u>55,787</u>
Interest Margin	6,494	5,576	12,038	10,592
Trading gains	87	2,431	886	3,294
Change in fair value of financial instruments	<u>398</u>	<u>429</u>	<u>441</u>	<u>213</u>
Net financial income	6,979	8,436	13,365	14,099
Other income	10 11,857	11,238	24,380	21,906
Net interest and other income	<u>18,836</u>	<u>19,674</u>	<u>37,745</u>	<u>36,005</u>
Operating Expenses				
Salaries and employee benefits	6,789	6,344	13,386	12,517
Premises and equipment, including depreciation	1,142	1,402	2,359	2,559
Other	<u>6,341</u>	<u>5,671</u>	<u>10,907</u>	<u>10,753</u>
	<u>14,272</u>	<u>13,417</u>	<u>26,652</u>	<u>25,829</u>
Income before income taxes	4,564	6,257	11,093	10,176
Income taxes	11 1,294	1,233	2,495	2,063
Net Income	<u>\$ 3,270</u>	<u>\$ 5,024</u>	<u>\$ 8,598</u>	<u>\$ 8,113</u>

See accompanying notes to the consolidated financial statements

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

	Notes	(Thousands of dollars)		(Thousands of dollars)	
		For the three months ended June 30 2006	June 30 2005	For the six months ended June 30 2006	June 30 2005
			<b>(Restated)</b> <b>(Note 2)</b>		<b>(Restated)</b> <b>(Note 2)</b>
Retained Earnings, beginning of period as previously stated		\$ 144,019	\$ 126,255	\$ 140,330	\$ 124,279
Adjustment to reflect change in accounting policy	2	-	7,764	-	7,764
Retained Earnings, beginning of period		144,019	134,019	140,330	132,043
Net Income		3,270	5,024	8,598	8,113
Dividends		(2,320)	(1,400)	(4,353)	(2,784)
Related tax savings	11	450	275	844	546
Retained Earnings, end of period		<u>\$ 145,419</u>	<u>\$ 137,918</u>	<u>\$ 145,419</u>	<u>\$ 137,918</u>

See accompanying notes to the consolidated financial statements

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

	(Thousands of dollars)		(Thousands of dollars)	
	For the three months ended June 30 2006	June 30 2005  (Restated) (Note 2)	For the six months ended June 30 2006	June 30 2005  (Restated) (Note 2)
<b>Cash flows from operating activities</b>				
Net income	\$ 3,270	\$ 5,024	\$ 8,598	\$ 8,113
Adjustments for:				
Depreciation	610	1,179	1,098	2,313
Gain on securities	(485)	1,946	(1,327)	(3,507)
Net change in accrued interest	2,514	2,371	(2,749)	(15,793)
Other items, net	7,017	(4,535)	5,722	(34,741)
	<u>12,926</u>	<u>5,985</u>	<u>11,342</u>	<u>(43,615)</u>
<b>Cash flows from financing activities</b>				
Dividends - net of income taxes	451	275	(5,264)	(4,339)
Net change - settlements-in-transit	38,820	23,828	46,413	33,400
Net change - notes	(35,597)	(1,380)	512,983	26,260
Net change - deposits	(27,975)	15,576	(757,745)	(350,848)
	<u>(24,301)</u>	<u>38,299</u>	<u>(203,613)</u>	<u>(295,527)</u>
<b>Cash flows from investing activities</b>				
Net change - securities	311,588	(223,316)	1,344,768	484,775
Net change - loans	(197,925)	187,440	(1,042,970)	(164,174)
Capital asset acquisitions	(736)	(1,348)	(1,122)	(3,176)
	<u>112,927</u>	<u>(37,224)</u>	<u>300,676</u>	<u>317,425</u>
Increase (decrease) in cash resources	101,552	7,060	108,405	(21,717)
Cash resources - beginning of period	72,516	21,756	65,663	50,533
Cash resources - end of period	<u>\$ 174,068</u>	<u>\$ 28,816</u>	<u>\$ 174,068</u>	<u>\$ 28,816</u>
<b>Supplemental Information</b>				
Interest received	<u>\$ 43,198</u>	<u>\$ 34,357</u>	<u>\$ 85,785</u>	<u>\$ 57,998</u>
Interest paid	<u>\$ 34,490</u>	<u>\$ 26,410</u>	<u>\$ 76,526</u>	<u>\$ 63,199</u>

See accompanying notes to the consolidated financial statements

**Credit Union Central of British Columbia**  
**Notes to the June 30, 2006 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, 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. Change in Accounting Policy**

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 securities and opening retained earnings for the period ended June 30, 2005 by \$7.76 million, net of tax.

**Credit Union Central of British Columbia**  
**Notes to the June 30, 2006 Interim Consolidated Financial Statements**  
**Unaudited**

**3. Securities**

(Thousands of dollars)

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
<b>Investment Account</b>			
Within three months			
- Government	\$ 19,502	\$ 40,448	\$ 90,057
- Banks & Corporate	<u>1,132,741</u>	<u>1,264,420</u>	<u>2,154,167</u>
	<u>1,152,243</u>	<u>1,304,868</u>	<u>2,244,224</u>
Three months to 12 months			
- Government	103,111	122,924	108,754
- Banks & Corporate	<u>177,040</u>	<u>297,298</u>	<u>202,310</u>
	<u>280,151</u>	<u>420,222</u>	<u>311,064</u>
One to five years			
- Government	238,687	324,226	263,918
- Banks & Corporate	<u>649,773</u>	<u>929,380</u>	<u>773,774</u>
	<u>888,460</u>	<u>1,253,606</u>	<u>1,037,692</u>
Greater than five years			
- Government	-	6,018	-
- Banks & Corporate	<u>38,334</u>	<u>77,415</u>	<u>110,764</u>
	<u>38,334</u>	<u>83,433</u>	<u>110,764</u>
Total	<u>2,359,188</u>	<u>3,062,129</u>	<u>3,703,744</u>
<b>Other</b>			
Credit Union Central of Canada			
- Shares and deposits	8,160	8,093	8,093
Co-operative & other securities	<u>12,705</u>	<u>26,511</u>	<u>15,638</u>
	<u>20,865</u>	<u>34,604</u>	<u>23,731</u>
	<u>\$ 2,380,053</u>	<u>\$ 3,096,733</u>	<u>\$ 3,727,475</u>

At the period-end, securities having a book value of \$177.1 million (June 30, 2005 - \$186.8 million; December 31, 2005 - \$265.7 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 June 30, 2006 Interim Consolidated Financial Statements**  
**Unaudited**

**4. Loans**

(Thousands of dollars)

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Due on demand - Credit Unions	\$ 20,241	\$ 78,555	\$ 19,674
- Co-operatives and others	<u>3,805</u>	<u>213</u>	<u>130</u>
	<u>24,046</u>	<u>78,768</u>	<u>19,804</u>
Term - Credit Unions	1,775,071	782,957	727,642
- Co-operatives & others	16,699	36,560	27,697
- Officers and employees	<u>13,894</u>	<u>10,916</u>	<u>11,597</u>
	<u>1,805,664</u>	<u>830,433</u>	<u>766,936</u>
	1,829,710	909,201	786,740
Accrued interest	<u>4,106</u>	<u>1,497</u>	<u>1,021</u>
	1,833,816	910,698	787,761
Allowance for losses (specific)	<u>328</u>	<u>328</u>	<u>328</u>
	<u>\$ 1,833,488</u>	<u>\$ 910,370</u>	<u>\$ 787,433</u>

Officer and employee loans bear interest at rates varying from 1.91% to 5.29%.

**5. Other Assets**

(Thousands of dollars)

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Market revaluation of trading derivatives	\$ 17,087	\$ 26,041	\$ 10,827
Loans held for sale	60,276	51,214	67,571
Accounts receivable	1,151	1,445	2,228
Prepaid expenses	1,946	410	947
Future income taxes (note 11)	<u>1,319</u>	<u>1,296</u>	<u>1,426</u>
	<u>\$ 81,779</u>	<u>\$ 80,406</u>	<u>\$ 82,999</u>

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**6. Notes**

	(Thousands of dollars)		
	<u>June 30</u>	<u>June 30</u>	<u>December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Notes			
- due within three months	\$ 412,775	\$ 222,649	\$ 124,792
- due after three months and within one year	-	-	-
- due after one year and less than five years	<u>450,000</u>	<u>175,000</u>	<u>225,000</u>
	<b>862,775</b>	397,649	349,792
Accrued interest	<u>2,633</u>	<u>595</u>	<u>924</u>
	<b><u>\$ 865,408</u></b>	<b><u>\$ 398,244</u></b>	<b><u>\$ 350,716</u></b>

Central has established \$376.0 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits.

At June 30, 2006 there were no borrowings under these facilities (June 30, 2005 - \$48.4 million; December 31, 2005 - \$nil).

At June 30, 2006 Central was 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 June 30, 2006, **\$862.8** million was borrowed under these facilities (June 30, 2005 - \$349.3 million; December 31, 2005 - \$349.8 million).

**7. Deposits**

	(Thousands of dollars)		
	<u>June 30</u>	<u>June 30</u>	<u>December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Deposits			
- due on demand	\$ 224,116	\$ 152,584	\$ 139,362
- due within three months	642,299	913,061	1,686,752
- due after three months and within one year	1,087,412	841,566	742,565
- due after one year and less than five years	1,225,354	1,429,376	1,367,497
- due after five years and less than six years	<u>250</u>	<u>1,900</u>	<u>1,000</u>
	<b>3,179,431</b>	3,338,487	3,937,176
Accrued interest	<u>46,864</u>	<u>46,255</u>	<u>52,250</u>
	<b><u>\$ 3,226,295</u></b>	<b><u>\$ 3,384,742</u></b>	<b><u>\$ 3,989,426</u></b>

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**8. Other Liabilities**

(Thousands of dollars)

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Market revaluation of trading derivatives	\$ 16,071	\$ 24,848	\$ 10,403
Trade amounts	2,182	1,627	4,781
Settlements in-transit	96,157	55,573	49,744
Future income taxes (note 11)	675	632	621
Accrued vacation and sick benefits	2,100	2,179	2,178
Employee future benefits	9,077	7,355	8,092
Other	<u>1,973</u>	<u>1,407</u>	<u>1,469</u>
	<u>\$ 128,235</u>	<u>\$ 93,621</u>	<u>\$ 77,288</u>

**9. 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.

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(Thousands of dollars)	<u>Contractual or notional amounts</u>		
	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Financial instruments whose contract could represent credit risk:			
- commitments to extend credit	\$ <b>1,396,022</b>	\$ 1,584,177	\$ 864,036
- standby letters of credit and financial guarantees	<b>154,467</b>	151,181	1,270,394
- commitments to accept deposits at agreed rates and terms	<b>358,963</b>	676,992	558,286
Financial instruments whose notional amounts do not represent credit risk:			
Derivatives under hedge accounting			
- Interest rate agreements	<b>1,731,026</b>	1,739,038	1,839,093
Derivatives as financial intermediary			
- Interest rate agreements	<b>7,609,430</b>	6,604,814	6,399,632
Trading account			
- Interest rate agreements	<b>195,500</b>	135,000	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.

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**10. Other Income**

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Membership Dues	\$ 815	\$ 780	\$ 1,632	\$ 1,562
Provincial Advertising assessment	609	609	1,218	1,218
Payment Services - Processing	5,210	4,922	10,042	9,298
- Technical Operations	419	360	778	688
- Internet banking	1,577	1,506	3,808	3,099
Financial Services - Treasury Services	266	399	550	642
- Lending Services	335	295	596	510
- Property rents	692	585	1,293	1,177
- Other	66	191	850	302
Trade Services - Risk Management	421	372	838	790
- Manuals	272	223	512	436
- Registered Plans	442	371	901	810
- Other	<u>733</u>	<u>625</u>	<u>1,362</u>	<u>1,374</u>
	<u>\$ 11,857</u>	<u>\$ 11,238</u>	<u>\$ 24,380</u>	<u>\$ 21,906</u>

**11. Provision for income taxes**

Income taxes reported in the financial statements are as follows:

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Provision for income taxes in statement of income	\$ 1,294	\$ 1,233	\$ 2,495	\$ 2,063
Income tax benefit related to dividends paid	<u>450</u>	<u>275</u>	<u>844</u>	<u>546</u>
Total	<u>\$ 844</u>	<u>\$ 958</u>	<u>\$ 1,651</u>	<u>\$ 1,517</u>

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Components of total income taxes are as follows:

Current income taxes	\$ 653	\$ 1,022	\$ 1,490	\$ 1,645
Future income taxes	<u>191</u>	<u>( 64)</u>	<u>161</u>	<u>( 128)</u>
Total	<u>\$ 844</u>	<u>\$ 958</u>	<u>\$ 1,651</u>	<u>\$ 1,517</u>

Central's effective tax rate for the six months ended June 30, 2006 of 22.5% (six months ended June 30, 2005 – 20.3%) differs from the amount that would be computed by applying the federal and provincial statutory rates of 34.1% (2005 – 34.9%) primarily due to the credit union deduction.

Components of future income tax balances are as follows:

(Thousands of dollars)

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Future income tax assets:			
Employee future benefits	<u>\$ 1,319</u>	<u>\$ 1,296</u>	<u>\$ 1,426</u>
Future income tax liabilities:			
Premises and equipment	<u>675</u>	<u>632</u>	<u>621</u>
Total	<u>\$ 644</u>	<u>\$ 664</u>	<u>\$ 805</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.

**12. Comparative amounts**

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