

# Third Quarter Report 2006

## REPORT TO MEMBERS

### SYSTEM <sup>(1)</sup> – CONTINUED STRENGTH IN THIRD QUARTER

Third quarter highlights compared to the same period last year:

- System net operating income <sup>(2)</sup> of \$74.87 million, versus \$80.67 million
- Central's net income of \$5.35 million, compared to \$3.88 million <sup>(3)</sup>
- System assets of \$37.7 billion, up 11.88% from \$33.7 billion

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 robust residential housing markets. The system earned \$74.87 million before taxes, dividends and patronage refunds in the third quarter of 2006. Combined assets for the system in the same period rose 11.88%, year-over-year, to reach \$37.7 billion at quarter-end.

Demand for loans remains high as total system net loans increased by 14.08% year-over-year to reach \$32.6 billion. Commercial and personal loans secured by real estate grew by 23.71% and 12.77%, year-over-year respectively. System loan delinquencies over 90 days continue to be at record lows, reaching 0.18% of total loans compared to 0.25% a year ago.

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 \$5.35 million compared to \$3.88 million for the same period last year. Assets increased 8.0% to \$4.6 billion from \$4.3 billion as at September 30, 2005.

Subsequent to September 30, 2006, Central and Credit Union Central of Ontario Ltd. (CUCO) entered into discussions on merging their wholesale financial services operations. The proposed merger will require approval by the membership of both organizations and is subject to regulatory authorization.

(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.
- (3) In 2005, Central made changes to its accounting policies which are described in *Note 2(l)* of Central's 2005 Consolidated Financial Statements. Information presented in this report has been restated to reflect these changes.

## **Management's Discussion and Analysis as at September 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 nine-month period ended September 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 good third quarter in 2006, achieving net income of \$5.35 million, or 4.72 cents a share compared to \$3.88 million or 3.42 cents a share last year. Net financial income of \$6.67 million increased from the \$6.23 million recorded in the third quarter of 2005.

Other income of \$12.95 million for the quarter was higher than last year's \$11.08 million, primarily due to increased payment processing and Internet banking revenues. Operating expenses of \$13.27 million were higher compared to the \$12.56 million incurred last year.

System net operating income for the quarter was \$74.87 million, compared to \$80.67 million for the third quarter of 2005. For the nine-month period ending September 30,

2006, system net operating income was \$211.87 million compared to \$212.36 million for the same period last year. Non-financial income was down a marginal 1.19% versus last year, though non-financial expense rose some 5.84%. System financial margin improved by 6.23% 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 September 30, 2005. Capital ratios remain strong. Central's risk-weighted capital ratio was 22.7% and its borrowing multiple was 16.7:1. System risk-weighted capital was 12.88%. 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 9.42% as of September 30, 2006, compared to 11.17% a year ago. 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 behind this year's lower liquidity levels.

	Unaudited For the Three Months Ended September 30, 2006	Unaudited For the Three Months Ended September 30, 2005	Increase/ (Decrease)
<b>Central Earnings</b>			
Net Financial Income ( <i>\$ millions</i> )	6.67	6.23	0.44
Net Financial and Other Income ( <i>\$ millions</i> )	19.62	17.31	2.31
Net Income ( <i>\$ millions</i> )	5.35	3.88	1.47
Earnings Per Share ( <i>cents</i> )			
Basic	4.72	3.42	1.30
Diluted	4.72	3.42	1.30
Return On:			
Average Assets (%)	0.46	0.48	(0.02)
Average Equity (%)	8.15	8.21	(0.06)
<b>Balance Sheet Data ( \$ billions )</b>			
Total Assets	4.59	4.25	0.34
Average Assets	4.59	4.17	0.42
Long-term Financial Liabilities	1.50	1.65	(0.15)
<b>Share Information</b>			
Outstanding \$1 Par Value Shares ( <i>thousands</i> )			
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) ( <i>cents</i> )	2.1	1.31	0.79
	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005	
<b>System</b>			
Net Operating Income ( <i>\$ millions</i> )	74.87	80.67	(5.80)
Total Assets ( <i>\$ billions</i> )	37.68	33.68	4.00
Number of Credit Unions	51	54	(3)

## Total Revenues

### Net Financial Income

Central's net financial income was \$6.67 million for the quarter compared to \$6.23 million for the same period last year. Interest margin, at \$6.56 million, was improved from last year's \$5.21 million. Higher interest rates and a notable increase in term loans to the System have jointly contributed to improved interest margin relative to previous years. Trading gains, inclusive of changes in fair value, were \$0.11 million, significantly less than that of last year's \$1.02 million. The realization of gains in the securities portfolio has diminished throughout the past year as the Bank of Canada has raised short-term interest rates. For the nine month period ending September 30, net financial income was \$20.03 million compared to \$20.33 million for the same period last year. Improvements in interest margin have more than compensated for the decrease in trading gains compared to last year.

## Other Income

Central's other income for the quarter of \$12.95 million improved from last year's \$11.08 million. The comparative amounts for the nine months year-to-date ending September 30 are \$37.33 million and \$32.98 million, respectively. Income from payments processing and Internet banking increased on the back of higher volumes. Management anticipates that this trend will continue as Central extends 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 \$0.66 million during the first quarter, versus \$0.17 million last year.

## Operating Expenses

Operating expenses increased to \$13.27 million for the quarter from the \$12.56 million of last year and to \$39.93 million from \$38.39 million for the nine-month period. Higher salary and benefit costs, mostly attributable to higher levels of technology department staffing, were the major factors in the increase over last year.

## Income Taxes

Central's income tax expense for the quarter was \$0.99 million which compares to \$0.87 million last year. Changes in tax rates enacted during the third quarter reduced income taxes by \$0.36 million over the same period last year. Central also recorded a tax recovery for accrued dividends of \$0.34 million in the quarter, versus \$0.30 million during the same period last year.

## **Balance Sheet**

### Cash and Securities and Liquidity Management

Central's assets increased by \$337 million to \$4.6 billion from \$4.3 billion as at September 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 \$2.5 billion, cash and securities represent over 54% 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 \$1.8 billion from \$1.1 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 September 30, assets securitized by the system through Central were as follows:

\$ millions	SEPT 30, 2006	SEPT 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-Sep-06	30-Jun-06	31-Mar-06	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05	31-Dec-04
Total Interest Income	49,691	45,239	\$ 39,648	\$ 37,725	\$ 33,906	\$ 33,454	\$ 32,925	\$ 32,626
Total Interest Expense	43,127	38,745	34,104	31,320	28,697	27,878	27,909	27,395
Interest Margin	6,564	6,494	5,544	6,405	5,209	5,576	5,016	5,231
Trading Gains	(131)	87	799	46	1,311	2,431	863	71
Change in Fair Value	236	398	43	(194)	(290)	429	(216)	50
Provision for credit losses								(328)
Other Income	12,950	11,857	12,535	12,253	11,075	11,238	10,668	11,110
Operating Expenses	(13,274)	(14,272)	(12,392)	(17,041)	(12,556)	(13,417)	(12,412)	(16,023)
Income Taxes	(991)	(1,294)	(1,201)	(263)	(867)	(1,233)	(830)	(36)
<b>Net Income</b>	<b>\$ 5,354</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>
Shares	113.35	113.35	113.35	113.35	113.35	113.35	113.35	113.35
Earnings per share (cents) *	4.72	2.88	4.70	1.06	3.42	4.43	2.73	0.07
Earnings per share fully diluted (cents)	4.72	2.88	4.70	1.06	3.42	4.43	2.73	0.07

\* 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 \$262.1 million, compared to \$253.9 million as at September 30, 2005.

Central's federal capital adequacy ratio was within its targeted operating range and on par with that at September 30, 2005. Central's provincial risk-weighted ratio at 22.7% was considerably higher than Central's target, and reflects the relatively low risk weighting of the majority of securities in Central's liquidity portfolio.

	September 30, 2006	September 30, 2005	TARGET
Borrowing Multiple	16.7:1	15.9:1	16:1 – 18:1
Risk-weighted Ratios	22.7%	20.5%	11 – 14%

## **Financial Instruments and Other Instruments**

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

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

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

	Notes	(Thousands of dollars)		December 31
	<u>          </u>	September 30	2005	2005
		<u>2006</u>	<u>2005</u>	<u>2005</u>
<b>Assets</b>				
			<b>(Restated)</b>	
			<b>(Note 2)</b>	
Cash		\$ 157,484	\$ 61,255	\$ 65,663
Securities	3	2,325,930	2,648,869	3,331,205
Amounts on deposit with regulated financial institutions	4	239,590	314,004	396,270
Loans	5	1,778,881	1,110,890	787,433
Capital assets		13,972	13,401	13,651
Other	6	73,390	104,179	83,460
		<u>\$ 4,589,247</u>	<u>\$ 4,252,598</u>	<u>\$ 4,677,682</u>
<b>Liabilities</b>				
Notes	7	\$ 850,713	\$ 600,200	\$ 350,716
Deposits	8	3,380,904	3,321,807	3,989,426
Dividends		6,731	4,315	6,109
Other	9	88,809	72,355	77,749
		<u>4,327,157</u>	<u>3,998,677</u>	<u>4,424,000</u>
<b>Members' Equity</b>				
Shares		113,353	113,352	113,352
Retained earnings		148,737	140,569	140,330
		<u>262,090</u>	<u>253,921</u>	<u>253,682</u>
		<u>\$ 4,589,247</u>	<u>\$ 4,252,598</u>	<u>\$ 4,677,682</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 September 30 2006	September 30 2005	For the nine months ended September 30 2006	September 30 2005
			<b>(Restated)</b> <b>(Note 2)</b>		<b>(Restated)</b> <b>(Note 2)</b>
Interest Income					
Securities		\$ 24,711	\$ 21,291	\$ 71,738	\$ 72,864
Amounts on deposit with regulated financial institutions		3,151	3,372	8,907	3,922
Loans		21,829	9,243	53,933	23,499
		<u>49,691</u>	<u>33,906</u>	<u>134,578</u>	<u>100,285</u>
Interest Expense					
Notes		10,110	3,312	24,649	8,491
Deposits		33,017	25,385	91,327	75,993
		<u>43,127</u>	<u>28,697</u>	<u>115,976</u>	<u>84,484</u>
Interest Margin		6,564	5,209	18,602	15,801
Trading gains		(131)	1,311	755	4,605
Change in fair value of financial instruments		236	(290)	677	(77)
Net financial income		<u>6,669</u>	<u>6,230</u>	<u>20,034</u>	<u>20,329</u>
Other income	11	<u>12,950</u>	<u>11,075</u>	<u>37,330</u>	<u>32,981</u>
Net interest and other income		<u>19,619</u>	<u>17,305</u>	<u>57,364</u>	<u>53,310</u>
Operating Expenses					
Salaries and employee benefits		6,804	6,286	20,190	18,803
Premises and equipment, including depreciation		1,277	1,200	3,636	3,759
Other		5,193	5,070	16,100	15,823
		<u>13,274</u>	<u>12,556</u>	<u>39,926</u>	<u>38,385</u>
Income before income taxes		6,345	4,749	17,438	14,925
Income taxes	12	<u>991</u>	<u>867</u>	<u>3,486</u>	<u>2,930</u>
Net Income		<u>\$ 5,354</u>	<u>\$ 3,882</u>	<u>\$ 13,952</u>	<u>\$ 11,995</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 September 30 2006	September 30 2005	For the nine months ended September 30 2006	September 30 2005
			<b>(Restated)</b> <b>(Note 2)</b>		<b>(Restated)</b> <b>(Note 2)</b>
Retained Earnings, beginning of period as previously stated		\$ 145,419	\$ 130,154	\$ 140,330	\$ 124,279
Adjustment to reflect change in accounting policy	2	-	7,764	-	7,764
Retained Earnings, beginning of period		145,419	137,918	140,330	132,043
Net Income		5,354	3,882	13,952	11,995
Dividends		(2,378)	(1,531)	(6,731)	(4,315)
Related tax savings	12	342	300	1,186	846
Retained Earnings, end of period		<u>\$ 148,737</u>	<u>\$ 140,569</u>	<u>\$ 148,737</u>	<u>\$ 140,569</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		For the nine months ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
		<b>(Restated)</b> <b>(Note 2)</b>		<b>(Restated)</b> <b>(Note 2)</b>
<b>Cash flows from operating activities</b>				
Net income	\$ 5,354	\$ 3,882	\$ 13,952	\$ 11,995
Adjustments for:				
Depreciation	561	1,314	1,659	3,627
Gain on securities	(105)	(1,021)	(1,432)	(4,528)
Net change in accrued interest	8,276	4,375	5,251	(11,818)
Other items, net	5,505	(31,167)	11,226	(65,908)
	<u>19,591</u>	<u>(22,617)</u>	<u>30,656</u>	<u>(66,632)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares	1	-	1	-
Dividends - net of income taxes	341	300	(4,923)	(4,039)
Net change - settlements-in-transit	(36,557)	(13,872)	9,856	19,528
Net change - notes	(14,790)	201,503	498,193	227,763
Net change - deposits	149,523	(64,949)	(608,222)	(415,797)
	<u>98,518</u>	<u>122,982</u>	<u>(105,095)</u>	<u>(172,545)</u>
<b>Cash flows from investing activities</b>				
Net change - securities	(265,596)	221,216	999,860	662,356
Net change - amounts on deposit with regulated financial institutions	134,336	(89,000)	156,908	(44,965)
Net change - loans	(2,575)	(199,763)	(988,528)	(363,937)
Capital asset acquisitions	(858)	(379)	(1,980)	(3,555)
	<u>(134,693)</u>	<u>(67,926)</u>	<u>166,260</u>	<u>249,899</u>
Increase (decrease) in cash resources	(16,584)	32,439	91,821	10,722
Cash resources - beginning of period	174,068	28,816	65,663	50,533
Cash resources - end of period	<u>\$ 157,484</u>	<u>\$ 61,255</u>	<u>\$ 157,484</u>	<u>\$ 61,255</u>
<b>Supplemental Information</b>				
Interest received	<u>\$ 52,540</u>	<u>\$ 32,867</u>	<u>\$ 138,325</u>	<u>\$ 90,865</u>
Interest paid	<u>\$ 37,946</u>	<u>\$ 28,697</u>	<u>\$ 114,472</u>	<u>\$ 91,896</u>

See accompanying notes to the consolidated financial statements

**Credit Union Central of British Columbia**  
**Notes to the September 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 September 30, 2005 by \$7.76 million, net of tax.

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

**3. Securities**

(Thousands of dollars)

	<u>September 30</u> <u>2006</u>	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
<b>Investment Account</b>			
Within three months			
- Government	\$ 67,343	\$ 37,608	\$ 90,057
- Banks & Corporate	<u>780,047</u>	<u>763,897</u>	<u>1,894,832</u>
	<u>847,390</u>	<u>801,505</u>	<u>1,984,889</u>
Three months to 12 months			
- Government	50,485	90,214	108,754
- Banks & Corporate	<u>143,435</u>	<u>311,383</u>	<u>126,001</u>
	<u>193,920</u>	<u>401,597</u>	<u>234,755</u>
One to five years			
- Government	224,271	294,379	263,918
- Banks & Corporate	<u>984,979</u>	<u>1,039,594</u>	<u>713,148</u>
	<u>1,209,250</u>	<u>1,333,973</u>	<u>977,066</u>
Greater than five years			
- Government	-	5,937	-
- Banks & Corporate	<u>54,392</u>	<u>84,729</u>	<u>110,764</u>
	<u>54,392</u>	<u>90,666</u>	<u>110,764</u>
Total	<u>2,304,952</u>	<u>2,627,741</u>	<u>3,307,474</u>
<b>Other</b>			
Credit Union Central of Canada			
- Shares and deposits	8,160	8,093	8,093
Co-operative & other securities	<u>12,818</u>	<u>13,035</u>	<u>15,638</u>
	<u>20,978</u>	<u>21,128</u>	<u>23,731</u>
	<u>\$ 2,325,930</u>	<u>\$ 2,648,869</u>	<u>\$ 3,331,205</u>

At the period-end, securities having a book value of \$159.2 million (September 30, 2005 - \$172.9 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 September 30, 2006 Interim Consolidated Financial Statements**  
**Unaudited**

**4. Amounts on deposit with regulated financial institutions**

The amounts on deposit with regulated financial institutions, which bear interest at rates from 2.73% to 6.10% (September 30, 2005 - 2.58% to 4.97%; December 31, 2005 – 2.68% to 5.08%), have maturities ranging from October 20, 2006 to September 14, 2011 (September 30, 2005 – October 3, 2005 to May 11, 2010; December 31, 2005 – Jan 3, 2006 to September 1, 2010)

**5. Loans**

(Thousands of dollars)

	<u>September 30</u> <u>2006</u>	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Due on demand - Credit Unions	\$ 17,329	\$ 45,628	\$ 19,674
- Co-operatives and others	<u>407</u>	<u>500</u>	<u>130</u>
	<u>17,736</u>	<u>46,128</u>	<u>19,804</u>
Term - Credit Unions	1,729,849	1,028,409	727,642
- Co-operatives & others	13,196	23,196	27,697
- Officers and employees	<u>14,487</u>	<u>11,231</u>	<u>11,597</u>
	<u>1,757,532</u>	<u>1,062,836</u>	<u>766,936</u>
	1,775,268	1,108,964	786,740
Accrued interest	<u>3,941</u>	<u>2,254</u>	<u>1,021</u>
	1,779,209	1,111,218	787,761
Allowance for losses (specific)	<u>328</u>	<u>328</u>	<u>328</u>
	<u>\$ 1,778,881</u>	<u>\$ 1,110,890</u>	<u>\$ 787,433</u>

Officer and employee loans bear interest at rates varying from 2.05% to 5.29%.

**6. Other Assets**

(Thousands of dollars)

	<u>September 30</u> <u>2006</u>	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Market revaluation of trading derivatives	\$ 12,503	\$ 13,759	\$ 10,925
Loans held for sale	55,813	86,802	67,571
Accounts receivable	1,976	1,413	2,183
Prepaid expenses	1,669	842	1,355
Future income taxes (note 12)	<u>1,429</u>	<u>1,363</u>	<u>1,426</u>
	<u>\$ 73,390</u>	<u>\$ 104,179</u>	<u>\$ 83,460</u>

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

**7. Notes**

(Thousands of dollars)

Notes	<u>September 30</u> <u>2006</u>	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
- with Credit Union Central of Canada	\$ 208	\$ -	\$ -
- due within three months	397,777	324,152	124,792
- due after three months and within one year	125,000	50,000	-
- due after one year and less than five years	<u>325,000</u>	<u>225,000</u>	<u>225,000</u>
	847,985	599,152	349,792
Accrued interest	<u>2,728</u>	<u>1,048</u>	<u>924</u>
	<u>\$ 850,713</u>	<u>\$ 600,200</u>	<u>\$ 350,716</u>

Central has established \$376.1 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At September 30, 2006 Central had borrowed \$0.21 million under these facilities (September 30, 2005 - \$nil; December 31, 2005 - \$nil).

At September 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 September 30, 2006, \$397.8 million was borrowed under the short term commercial paper facility (September 30, 2005 - \$324.2 million; December 31, 2005 - \$124.8 million) and \$450.0 million was borrowed under the mid term note facility (September 30, 2005 - \$275.0 million; December 31, 2005 - \$225.0 million)

**8. Deposits**

(Thousands of dollars)

Deposits	<u>September 30</u> <u>2006</u>	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
- due on demand	\$ 154,580	\$ 132,564	\$ 139,362
- due within three months	925,985	836,833	1,686,752
- due after three months and within one year	1,077,331	871,130	742,565
- due after one year and less than five years	1,170,683	1,432,145	1,367,497
- due after five years and less than six years	<u>375</u>	<u>866</u>	<u>1,000</u>
	3,328,954	3,273,538	3,937,176
Accrued interest	<u>51,950</u>	<u>48,269</u>	<u>52,250</u>
	<u>\$ 3,380,904</u>	<u>\$ 3,321,807</u>	<u>\$ 3,989,426</u>

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

**9. Other Liabilities**

(Thousands of dollars)

	<u>September 30</u> <u>2006</u>	<u>September 30</u> <u>2005</u>	<u>December 31</u> <u>2005</u>
Market revaluation of trading derivatives	\$ 11,044	\$ 13,068	\$ 10,864
Trade amounts payable	6,200	5,756	6,250
Settlements in-transit	59,600	42,870	49,744
Future income taxes (note 12)	618	662	621
Accrued vacation and sick benefits	1,755	2,276	2,178
Employee future benefits	<u>9,592</u>	<u>7,723</u>	<u>8,092</u>
	<u>\$ 88,809</u>	<u>\$ 72,355</u>	<u>\$ 77,749</u>

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

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

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

(Thousands of dollars)	<u>Contractual or notional amounts</u>		
	<u>September 30</u>	<u>September 30</u>	<u>December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Financial instruments whose contract amounts could represent credit risk:			
- commitments to extend credit	\$ <b>1,642,937</b>	\$ 1,423,679	\$ 864,036
- standby letters of credit and financial guarantees	<b>172,782</b>	126,512	1,270,394
- commitments to accept deposits at agreed rates and terms	<b>295,151</b>	575,310	558,286
Financial instruments whose notional amounts do not represent credit risk:			
Derivatives under hedge accounting			
- Interest rate agreements	<b>1,832,194</b>	1,746,316	1,839,093
Derivatives as financial intermediary			
- Interest rate agreements	<b>7,131,380</b>	6,394,500	6,399,632
Trading account			
- Interest rate agreements	<b>289,000</b>	159,000	116,000
- Forward rate agreements	<b>50,000</b>	23,222	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 interest rate exposure on an instrument from fixed-to-floating or floating-to-fixed. Where a derivative qualifies for hedge accounting as outlined in Note 2 to the Consolidated Financial Statements for the year ended December 31, 2005, Central may elect to designate that derivative as part of a hedging relationship.

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

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

**11. Other Income**

		(Thousands of dollars)			
		For the three months ended		For the nine months ended	
		<u>September</u> <u>30, 2006</u>	<u>September</u> <u>30, 2005</u>	<u>September</u> <u>30, 2006</u>	<u>September</u> <u>30, 2005</u>
Membership Dues		\$ 1,131	\$ 782	\$ 2,763	\$ 2,344
Provincial Advertising Assessment		609	609	1,827	1,827
Payment Services	- Processing	5,177	4,682	15,184	13,980
	- Technical Operations	483	380	1,298	1,068
	- Internet banking	2,568	1,814	6,374	4,913
Financial Services	- Treasury Services	365	150	938	792
	- Lending Services	235	199	831	709
	- Property rents	706	566	1,999	1,743
	- Other	4	18	831	320
Trade Services	- Risk Management	409	631	1,247	1,421
	- Manuals	252	450	764	886
	- Registered Plans	433	460	1,334	1,270
	- Other	578	334	1,940	1,708
		<u>\$ 12,950</u>	<u>\$ 11,075</u>	<u>\$ 37,330</u>	<u>\$ 32,981</u>

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

**12. Provision for income taxes**

Income taxes reported in the financial statements are as follows:

	(Thousands of dollars)			
	For the three months ended		For the nine months ended	
	<u>September</u> <u>30, 2006</u>	<u>September</u> <u>30, 2005</u>	<u>September</u> <u>30, 2006</u>	<u>September</u> <u>30, 2005</u>
Provision for income taxes in statement of income	\$ 991	\$ 867	\$ 3,486	\$ 2,930
Income tax benefit related to dividends paid	<u>342</u>	<u>300</u>	<u>1,186</u>	<u>846</u>
Total	<u>\$ 649</u>	<u>\$ 567</u>	<u>\$ 2,300</u>	<u>\$ 2,084</u>

Components of total income taxes are as follows:

Current income taxes	\$ 816	\$ 604	\$ 2,306	\$ 2,249
Future income taxes	<u>( 167)</u>	<u>( 37)</u>	<u>( 6)</u>	<u>( 165)</u>
Total	<u>\$ 649</u>	<u>\$ 567</u>	<u>\$ 2,300</u>	<u>\$ 2,084</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% (2005 – 34.9%) to income before taxes. The reasons for this are as follows:

	(Percentage of pre-tax income)			
	For the three months ended		For the nine months ended	
	<u>September</u> <u>30, 2006</u>	<u>September</u> <u>30, 2005</u>	<u>September</u> <u>30, 2006</u>	<u>September</u> <u>30, 2005</u>
Combined federal and provincial statutory income tax rates	34.1	34.9	34.1	34.9
Reduction available to credit unions	(16.0)	(11.6)	(16.0)	(11.6)
Corporate surtax	0.1	0.1	0.1	0.1
Other	<u>( 2.6)</u>	<u>( 5.1)</u>	<u>1.8</u>	<u>( 3.8)</u>
Total	<u>15.6</u>	<u>18.3</u>	<u>20.0</u>	<u>19.6</u>

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

Components of future income tax balances are as follows:

	(Thousands of dollars)		
	<u>September 30</u>	<u>September 30</u>	<u>December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Future income tax assets:			
Employee future benefits	<u>\$ 1,429</u>	<u>\$ 1,363</u>	<u>\$ 1,426</u>
Future income tax liabilities:			
Premises and equipment	<u>618</u>	<u>662</u>	<u>621</u>
Total	<u>\$ 811</u>	<u>\$ 701</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.

**13. Comparative amounts**

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

**14. Proposed merger**

Subsequent to September 30, 2006, Central entered into preliminary discussions with Credit Union Central of Ontario Limited (CUCO) to merge their respective wholesale financial services operations. The combined entity would perform treasury, lending and payment services for its member credit unions in both British Columbia and Ontario. The merger of Central and CUCO must be approved by the membership of both organizations and is subject to regulatory approval.