Annual Report **2005**

375

Number in millions of dollars that credit unions and caisses populaires contribute to the Ontario economy.

42

Number of Ontario communities where a credit union is the only financial institution.

Strength in Numbers

23

Number in billions of dollars that Ontario residents have entrusted to their local credit union.

CREDIT UNION CENTRAL OF ONTARIO

39,000

Number of small and medium businesses that receive financing from a credit union.

Strength in Numbers

Mission and Vision 1 Message from the CEO and Chair 3 About Us 5 Risk Management and Control Practices 6 Management's Responsibility for Financial Information 9 Report of the Audit Committee 10 Auditors' Report 12 Consolidated Balance Sheet 13 Consolidated Statement of Income and Retained Earnings 14 Consolidated Statement of Cash Flows 15 Notes to Consolidated Financial Statements 16 Five Year Financial Review 38 Governance and Management 41

20

Mission

Our mission is to lead and enable the growth and evolution of the credit union system in Ontario.

Vision

Our vision is to be a passionate, tireless promoter of credit unions and co-operative values; to be recognized as the highest-value provider of products and services to our members; and to be acknowledged as having advanced and enabled a strong, viable and cohesive Ontario credit union system.

CEO and CHAIR

Left to Right: **Howard Bogach** and **Sheena Lucas**

Message from the CEO and Chair

Credit unions were built on the strength of numbers – groups of people coming together, pooling their funds, to make life better for everyone. Nearly 100 years after the province's first financial co-operative was established, Credit Union Central of Ontario and our member credit unions continue to work together in new ways to help make life better for our members and our communities.

LOOKING BACK

In late 2004, Central adopted a new mission: to lead and enable the growth and evolution of the credit union system in Ontario. That mission is driving our efforts to be a valued advocate and provider of product and service solutions to credit unions, enabling them to focus on what they do best: serve their members.

In 2005, we witnessed the outcome of this renewed partnership as credit unions increasingly integrated Central into their business process. Our members turned to us for a record $380 million in loans last year – funds that allowed credit unions, in turn, to play a key role in the success of their communities by providing loans and mortgages to individuals, small businesses and community groups.

Throughout 2005, Central led a coalition of our member credit unions, non-member credit unions and caisses populaires in lobbying the Ontario government for changes to the *Credit Unions and Caisses Populaires Act (1994)* – changes that will ensure the continued growth and strength of co-operative financial institutions across Ontario. This alliance is another example of strength in numbers. By working together and speaking with a common voice, the system has captured the attention of Queen's Park. The government has committed to overhauling our governing legislation this spring.

LOOKING FORWARD

In 2006, we will continue the work we have started on our system strategy roadmap – a plan for continued growth for our system over the next three to five years. We began the journey last year by talking to credit unions about where they want to go and how Central can help them get there. As a first step, our members agreed to a common mission for the system: "credit unions exist to make people's lives better." Credit unions fulfill that mission by building trust with members, helping them achieve financial security and nurturing the grassroots of the communities they serve. Ontarians are responding. In 2005, membership and assets at Ontario credit unions continued to grow.

This year we will proceed with the next phase of the roadmap: developing solutions to identified strategic challenges, including programs that can be implemented by credit unions themselves. Numbers will play a part in this journey as well; our success will come from widespread participation by members and our collective strength of purpose.

As we've helped our system prosper, so too has Central continued to grow its business. In 2005, our strong value proposition and competitive position attracted two new members and earned the banking business of two of the province's largest credit unions. Central ended the year in a strong financial position that allowed us to pay members another excellent return on their investment with us.

In 2006, we will continue to focus on growing our business. We'll find new sources of revenue, practice smart, effective management, and provide good value and good service to our members.

Our strength in numbers will guarantee success – for Central and member credit unions – as we collectively set the industry standard for ensuring the financial health of Ontarians and the communities in which they live.

BOARD of DIRECTORS

Back Row: **Scott Kennedy, Bruce Corbett, Ian Russell**

Middle Row: **Jack Smit, Ron Koppmann, Jack Morneau, Dave Sitaram**

Front Row: **Sean Jackson, Janet Grantham, Tim Bossence, Sheena Lucas**

Absent: **Fred Gorbet and Alan Marentette**

About Us

CREDIT UNION CENTRAL OF ONTARIO

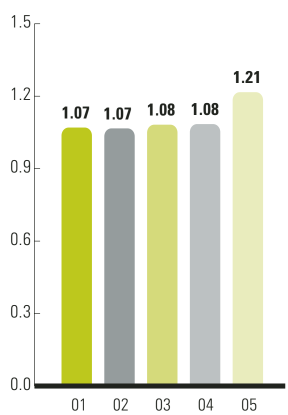
Credit Union Central of Ontario provides financial services, solutions and leadership to the province's credit unions and is the voice of the credit union system to the government and other stakeholders. Our strength comes from our membership: 90 per cent of credit unions in Ontario own and democratically control Central.

Ontario Central's primary financial role is to maintain a liquidity pool for its member credit unions. This liquidity arrangement means that a credit union member's deposits are backed by a larger organization and by the combined strength of a network of more than 500 affiliated credit unions in Canada. Members also benefit from Central's affiliation with national and international organizations, including the Canadian Payments Association and the Interac® network.

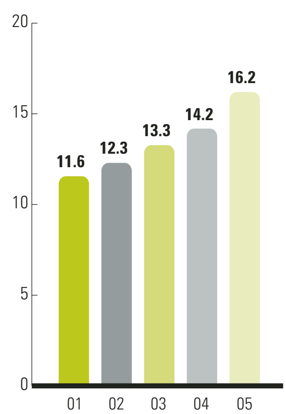
ONTARIO CREDIT UNIONS

Credit unions are co-operative financial service organizations that are owned by the people they serve -- their members. Member credit unions of Ontario Central provide banking services, loans and wealth management to 1.2 million Ontarians in over 710 locations.

2005 NOTABLE NUMBERS



Number of Members
(in millions)



Credit Union Assets
(in billions of $)

All numbers for member credit unions of Credit Union Central of Ontario (as of September 30, 2005)

Risk Management and Control Practices

OVERVIEW

Central strategically manages credit and market risks to prudently earn competitive returns at acceptable risk levels from our various business activities. Risk management and control practices are designed to monitor and control the inherent risks in Central's business of providing financial support services to member credit unions. These risk exposures include credit risk, liquidity risk, market risk, foreign currency risk and operating risk.

Risk management strategies are undertaken within approved policy limits set by Central's Board of Directors. These policies are reviewed at least annually to ensure that, with changes in Central's business, all significant risks are identified and adequate risk management processes are in place. The Board and management have invested considerable time and resources in building a risk management and control structure that allows Central to disaggregate and mitigate its risk exposures. Within strictly defined risk tolerance levels and carefully supervised operational parameters, the Board delegates to management the authority to select which exposures Central will transfer, those it will hedge, and which it will actively manage for profitable performance. The gradual expansion of this strategic initiative has diversified Central's earnings capability through a broader array of market opportunities and created additional value for members.

Central developed an Enterprise Risk Management (ERM) framework and established a Risk Committee for the purpose of aligning business objectives, risks, and control to further support Central in achieving its mission and strategies.

The framework serves to:

- Identify Central's risk philosophy and risk tolerance;
- Outline the organizational model, including roles and responsibilities;
- Document Central's common business risk language;
- Identify, prioritize and assess principal business risks;
- Guide strategies to implement action plans.

The oversight role and responsibilities of the Risk Committee have been assigned to Central's senior management team to complement other well established management committees whose focus is specific to key risks, such as the Credit Committee, Investment Advisory Committee, Asset and Liability Management Committee and Delinquency Committee.

CREDIT RISK

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour financial or contractual obligations. Credit risk arises from traditional lending and investment activity and from settling payments between Central and its counterparties associated with both on- and off-balance sheet financial instruments.

Central's policies establish limits for acceptable levels and areas of credit risk, establish clearly defined accountabilities for decision making and determining credit worthiness, and provide for diversification to avoid excessive risk concentrations.

Consistent with its core mandate as the system's liquidity manager, Central's investment portfolio is composed of liquid assets of a high credit quality, the selection of which is overseen by the Investment Advisory Committee (IAC). The IAC ensures that the portfolio is adequately diversified across and within eligible asset classes and balances Central's desire for prudent levels of reserve liquidity with the need to generate an adequate return on member share capital.

Involvement in commercial lending has been restricted to syndications with member credit unions under the Loan Syndication Program to respond to local members' needs. Commercial loans are evaluated by a skilled commercial lender and are subject to review by an objective Credit Committee. A credit scoring system is used to quantify and evaluate the risks inherent in proposed credits. Annually, the status of each credit is reviewed in the same manner as a new credit proposal.

The Delinquency Committee is responsible for monitoring problem loans, ensuring that appropriate action is taken and that allowances are adequate to cover potential losses. Specific allowances are established for exposures based on analysis of individual accounts to reduce the carrying value of an impaired loan to its estimated realizable amount. General allowances for loss are also established to absorb probable credit losses on the aggregate exposures in each of Central's business lines for which losses are not yet specifically identified on an item-by-item basis.

LIQUIDITY RISK

Liquidity risk arises from fluctuations in cash flows. Liquidity management policies ensure that Central is able to prudently meet its financial obligations as they come due.

In addition, Central's core financial function is to maintain liquid assets for its member credit unions and to be the manager of liquidity for the system. The mandate for system liquidity is managed in three tiers: the local credit union level, the provincial level and the national level. On the local level, credit unions maintain cash resources and liquid investments to meet cash flow requirements. On the provincial level, Central monitors the demand for liquidity from the member credit unions and maintains an adequate supply of cash resources and high quality liquid investments in addition to a line of credit with Credit Union Central of Canada (CUCC) to support provincial liquidity requirements. On a national basis, through CUCC, Central participates in the national liquidity program, which provides for the movement of liquidity between provincial Centrals. Central's Liquidity Plan contains a crisis plan structured to react to escalating levels of systemic liquidity demands, and is reviewed at least annually.

MARKET RISK

Market risk is the potential financial impact of fluctuations in market rates on the securities portfolio, and includes changes in interest rates, equities prices, and foreign exchange rates. Structural interest rate risk arises from mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice at various points in time. Central's exposure to interest rates changes continually as a result of member term preferences, daily business activities and risk management initiatives. Central's exposure to equity market fluctuations is not significant.

The Asset Liability Management Committee (ALCO) regularly monitors market rate risk and establishes strategies to achieve a balance between maximizing net interest income and reducing the risk to earnings from adverse movements in market rates. This is accomplished by managing Central's risk profile within predetermined limits, taking into consideration expected changes in the level of interest rates and shape of the yield curve.

Central's primary analytical techniques to measure and monitor interest rate risks are income sensitivity, Dollars-at-Risk (changes in market value) and Value-at-Risk (VaR) analyses.

Interest rate sensitivity analysis measures the difference between the amount of assets and liabilities and off-balance sheet instruments that mature or reprice at a specific point in time. Based on Central's interest rate sensitivity position at December 31, 2005, and assuming no management action, an immediate one per cent increase in interest rates across all repricing dates would lower net interest income by approximately $761,000 over the next 12 months.

Dollars-at-risk analysis measures the sum of the changes in market value of each exposure along the yield curve to a one basis point movement in interest rates -- all other points are held constant. At December 31, 2005, this measurement was approximately $7,765.

VaR analysis allows Central to estimate the maximum potential loss in market value from adverse changes in interest rates based on statistical confidence levels. Central measures the changes in portfolio values on a daily basis and monitors the VaR on a daily basis against policy limits and monthly loss limits. As at December 31, 2005, based on a 95 per cent confidence level, the one-day VaR was approximately $92,000.

Simulation modelling and VaR allow Central to analyze interest rate risk dynamically. Simulation modelling incorporates pricing strategies, volume and mix of new business, and future changes in interest rates. The models are continually monitored and updated to assist in assessing potential investment strategies. Central also stress-tests its portfolio by estimating the resulting changes in market value that might occur during periods of extreme price movements. These scenarios are drawn both from actual historic and hypothetical time series.

FOREIGN EXCHANGE RATE RISK

Central has assets denominated in foreign currencies and buys and sells these currencies to meet member credit unions' needs. Central could be exposed to fluctuations in foreign exchange rates when assets in a foreign currency are either greater than or less than the liabilities in that currency.

Central manages its foreign exchange risk within clearly established policies and procedures to minimize foreign exchange rate risk.

OPERATING RISK

Operating risk is the potential for loss caused by internal or external events as a result of systems or procedural failures, errors, fraud or natural disasters.

While operating risk is inherent to each of Central's business activities, the exposure to Central is minimized by ensuring that the appropriate infrastructure, controls, systems and people are in place. Key policies and procedures used in managing operating risk involve segregation of duties, delegation of authority, risk monitoring, and financial and managerial reporting. Central's organizational structure clearly segregates trading, monitoring and processing functions. As a result, traders have no access to the transaction processing, confirmation or payment functions. Similarly, commercial loan origination is segregated from credit adjudication and administration.

Central also maintains extensive business continuity plans to ensure that critical business functions will continue under adverse conditions and that normal operations will be restored effectively in the event of a major disaster. Business continuity plans are updated and evaluated regularly, including scenario testing with assigned personnel.

Central's operations are subject to ongoing review by external and internal auditors and periodic examination by both federal and provincial regulators. From time to time, Central also engages expert third parties to analyze its operations and controls and make recommendations based on industry standards of best practices.

Management's Responsibility for Financial Information

The consolidated financial statements and all information contained in this annual report were prepared by the management of Credit Union Central of Ontario Limited (Central), which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles. The financial statements also conform to the accounting requirements of the Superintendent of Financial Institutions Canada and are based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains the necessary system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. These controls include quality standards in hiring and training employees, written policies and procedures, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility. These controls are monitored by Central's internal audit firm, Deloitte & Touche LLP, who regularly review all aspects of Central's operations.

Central's Board of Directors oversees management's responsibilities for the financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the financial statements with management and the internal and external auditors before recommending their approval to the Board of Directors. The Conduct Review Committee reviews all related party transactions and ensures any such transaction that might materially affect the stability or solvency of Central is identified and reported to the Board. The Board of Directors, the Audit Committee and the Conduct Review Committee are composed entirely of directors who are neither management nor employees of Central.

Central is regulated federally under the *Cooperative Credit Associations Act* (Canada) by the Office of the Superintendent of Financial Institutions Canada and provincially under the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) by the Financial Services Commission of Ontario. On an annual basis, the Office of the Superintendent of Financial Institutions Canada or the Financial Services Commission of Ontario conducts an examination to assess the operations of Central and its compliance with statutory requirements and sound business practices.

KPMG LLP, external auditors appointed by Central's member credit unions, have examined the consolidated financial statements of Central in accordance with Canadian generally accepted auditing standards. The auditors have full and free access to, and meet periodically with, the Audit Committee, with and without management present, to discuss their audit and matters relating to financial statement presentation, internal controls and audit procedures.

Howard A. Bogach
President and Chief Executive Officer

James M. MacDonald, CA
Chief Financial Officer

February 3, 2006

Report of the Audit Committee

Central's Audit Committee was formed as a committee of the Board of Directors pursuant to Section 125 of the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) and Section 199 of the *Cooperative Credit Associations Act* (Canada). The committee, which consists of five directors, has oversight responsibility for Central's financial reporting processes and the quality of its financial reporting. The committee operates within a written mandate that prescribes the committee's objectives and responsibilities and how it functions.

In discharging its responsibility for financial reporting in 2005, the committee continued to focus on three areas: reviewing key financial disclosure reports, ensuring the adequacy of internal control and overseeing the work of Central's external auditors.

The committee paid special attention to standards of accountability and corporate governance and took action to review Central's practices where applicable. The committee continues to monitor and adopt, as appropriate, new regulatory requirements and emerging best practices. The president and chief executive officer, as well as the chief financial officer, are responsible for the integrity and fairness of the information presented in the consolidated financial statements.

In the course of its work, the committee met regularly with the external auditors and management, including the chief financial officer who is also assigned responsibility for legislative compliance, and the president and chief executive officer. The committee also met with and received reports from an independent accounting/auditing firm, Deloitte & Touche LLP (Deloitte), which has been engaged to perform the internal audit function at Central.

FINANCIAL REPORTS

- Reviewed with management and the external auditors the appropriateness of Central's accounting and financial reporting, the impact of the adoption of new accounting pronouncements, the accounting treatment of significant risks and uncertainties, the key estimates and judgments of management that were material to Central's financial reporting and the disclosure of significant accounting policies.
- Reviewed and recommended to the Board for its approval the Audited Consolidated Financial Statements of Central to ensure they were complete, fairly presented and, in accordance with established principles, consistently applied.

INTERNAL CONTROL

- Assessed the processes relating to the evaluation of Central's internal control environment, including approving the annual internal audit plan and reviewing the reports received from Deloitte in respect of internal control. This included evaluating internal audit processes and conducting regular reviews of the adequacy of resources and independence of Central's internal audit function.
- Reviewed and approved appropriate internal control and financial governance policies as well as Central's Audit Mandate.
- Reviewed key regulatory requirements to understand their implications for Central.

- Reviewed reports relating to adherence to the Standards of Sound Business and Financial Practices prescribed by the Deposit Insurance Corporation of Ontario to ensure Central met or exceeded acceptable standards.
- Reviewed reports of the compliance officer in respect of legislative compliance matters to assess their implications for Central.
- Reviewed observations and recommendations of the external auditors and external regulators as well as management's response to assess their impact on Central.
- Met regularly with internal audit firm, Deloitte, with and without management present.

EXTERNAL AUDITORS

- Undertook, on behalf of Central's members, the selection and evaluation of the external auditors, including a comprehensive review of their performance, qualifications, independence, annual audit plan and fees (including fees for non-audit services) to ensure their performance against acceptable standards.
- Reviewed the results of the work of the external auditors including the communications to the committee required under Canadian generally accepted auditing standards.
- Reviewed and updated Central's policy in respect of the external auditors to reflect emerging practices. The committee continues to be satisfied that appropriate processes are in place to ensure the independence of the external auditors.
- Met regularly with the external auditors with and without management present.

Based on its findings, the Audit Committee issues reports and makes recommendations to the Board of Directors or senior management, as appropriate, with respect to matters outlined above, and follows up to ensure the recommendations are considered and implemented. The committee receives full co-operation and support from management to enable it to play an effective role in improving the quality of financial reporting to the members and enhancing the overall control structure at Central.

The committee met seven times in 2005, and is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2005.

Respectfully submitted by the Audit Committee.

Sean Jackson
Chair
Audit Committee

February 3, 2006

Auditors' Report

TO THE MEMBERS OF CREDIT UNION CENTRAL OF ONTARIO LIMITED

We have audited the consolidated balance sheet of Credit Union Central of Ontario Limited (Central) as at December 31, 2005 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Central's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Central as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Ontario

February 3, 2006

Consolidated Balance Sheet

As at December 31, 2005

(in thousands)	**2005**	2004
ASSETS		
Cash resources	**$ 188,774**	$ 194,641
Securities (note 4)	**1,023,285**	1,079,825
Securities purchased under resale agreements (note 5)	**234,788**	27,960
Loans (note 6)	**499,445**	341,075
Other assets (note 7)	**30,373**	35,602
	$ 1,976,665	$ 1,679,103
LIABILITIES AND RETAINED EARNINGS		
Members' deposits (note 8)	**$ 1,462,829**	$ 1,277,529
Other liabilities (note 9)	**33,670**	39,340
Obligations related to securities sold under repurchase agreements	**78,698**	98,850
Obligations related to securities sold short	**283,512**	156,477
Membership shares (note 10)	**92,949**	85,473
	1,951,658	1,657,669
Retained earnings	**25,007**	21,434
	$ 1,976,665	$ 1,679,103

See notes to consolidated financial statements.

Approved by the Board:

Sheena Lucas
Director

Sean Jackson
Director

Consolidated Statement of Income and Retained Earnings

For the year ended December 31, 2005

(in thousands)	**2005**	2004
Interest income		
Securities	**$ 33,272**	$ 30,495
Loans (note 6d)	**17,115**	12,912
Cash resources	**4,090**	2,585
	54,477	45,992
Interest expense (note 8b)	**40,257**	34,225
Net interest income	**14,220**	11,767
Reversal of credit provision due to change in accounting policy (note 4)	**–**	(300)
Provision for credit losses (note 6c)	**664**	314
	13,556	11,753
Net gain (loss) on securities and derivatives	**588**	(1,025)
Financial margin	**14,144**	10,728
Operating revenue		
Membership dues	**4,060**	3,330
Financial services and other income	**16,271**	16,641
	20,331	19,971
Operating expenses		
Salaries and benefits	**11,869**	10,882
Administrative and other	**12,691**	12,630
Occupancy and amortization	**3,697**	4,649
	28,257	28,161
Income from ongoing operations	**6,218**	2,538
Restructuring costs (note 3)	**–**	188
Dividend (note 11)	**1,967**	–
Income before income taxes	**4,251**	2,350
Provision for income taxes (note 13)	**678**	144
Net income	**3,573**	2,206
Retained earnings, beginning of year	**21,434**	19,228
Retained earnings, end of year	**$ 25,007**	$ 21,434

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2005

(in thousands)	2005	2004
Cash flows from operating activities:		
Net income	**$ 3,573**	$ 2,206
Adjustments for:		
Net (gain) loss on sale of securities	**(588)**	1,025
Provision for credit losses, net	**664**	14
Depreciation and amortization	**813**	945
(Gain) loss on disposal of fixed assets	**(3)**	(7)
Dividends paid	**–**	(4,484)
Net changes in accrued interest receivable and payable	**2,056**	(1,290)
Other items, net	**(1,948)**	(793)
Cash flows from operating activities	**4,567**	(2,384)
Cash flows from financing activities:		
Net change in members' deposits	**185,300**	(36,205)
Membership shares issued	**35,128**	3,836
Membership shares redeemed	**(27,652)**	(4,305)
Net change in obligations related to securities sold under repurchase agreements	**(20,152)**	(23,363)
Net change in obligations related to securities sold short	**127,035**	(1,507)
Cash flows from financing activities	**299,659**	(61,544)
Cash flows used in investing activities:		
Sale and maturity of securities	**40,287,325**	31,026,677
Purchase of securities	**(40,230,197)**	(30,892,142)
Net change in loans	**(159,034)**	(105,373)
Net change in securities purchased under resale agreements	**(206,828)**	157,834
Acquisition of fixed assets	**(1,332)**	(621)
Proceeds on sale of fixed assets	**6**	17
Cash flows used in investing activities	**(310,060)**	186,392
Effect of exchange rate changes on cash resources	**(33)**	(130)
Net increase (decrease) in cash resources	**(5,867)**	122,334
Cash resources, beginning of year	**194,641**	72,307
Cash resources, end of year	**$ 188,774**	$ 194,641
Cash resources are comprised of:		
Cash in bank and items in transit (net)	**$ 29,516**	$ 36,219
Deposits maturing or callable within 90 days	**159,258**	158,422
	$ 188,774	$ 194,641
Supplementary cash flow information:		
Interest paid during the year	**$ 37,188**	$ 36,915
Income taxes paid (received) during the year	**$ (243)**	$ 286

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Credit Union Central of Ontario Limited (Central) have been prepared in accordance with generally accepted accounting principles (GAAP), including interpretations of GAAP by the Superintendent of Financial Institutions Canada. The significant accounting policies that were followed are summarized below:

(a) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of Central and its wholly-owned subsidiary, Landmark Credit Limited. All inter-company transactions and balances have been eliminated.

(b) Cash resources

Cash resources include deposits with regulated financial institutions with an original term less than 90 days and cheques and other items in transit representing uncleared settlements with other financial institutions. Both items are recorded at cost. Income on interest bearing deposits is recorded on an accrual basis and is included in *Interest income - Cash resources* in the Consolidated Statement of Income and Retained Earnings.

(c) Securities

Investment account securities are securities where the original intention is to hold the securities to maturity or until market conditions render alternative investments more attractive. Debt securities are carried at amortized cost whereby purchase discounts and premiums are amortized to income over the period to maturity. Investments in shares of co-operatives are carried at cost. Dividend and interest income on all securities are included in *Interest Income - Securities* in the Consolidated Statement of Income and Retained Earnings.

Trading and yield enhancement securities are securities which are purchased for resale over a short period of time and are carried at fair value. The full amount of gains or losses on disposal and adjustments to fair value of these securities is included in *Net gain (loss) of sale of securities* in the Consolidated Statement of Income and Retained Earnings.

Gains and losses on the sale of fixed-term securities are accounted for using the completed transaction method on the trade date. If the value of investment account securities or co-operative shares has an impairment that is other than temporary, the carrying value is appropriately reduced to fair value. Any write downs or gains and losses on disposal of securities are recorded in the year they occur and are included in *Net gain (loss) on sale of securities* in the Consolidated Statement of Income and Retained Earnings.

(d) Loans

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis except on loans classified as impaired. A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans where interest or principal is contractually past due 90 days are automatically recognized as impaired, unless management determines the loan is fully secured or in the process of collection, and the collection efforts are reasonably expected either to result in repayment of the loan or restoration to a current status within 180 days from the date the payment has become contractually in arrears. All loans are classified as impaired when interest or principal is past due 180 days, except for loans guaranteed or insured by the Canadian government, the provinces, or a Canadian government agency, which are classified as impaired when interest or principal is contractually 365 days in arrears.

When a loan is classified as impaired, recognition of interest, in accordance with the terms of the original loan agreement, ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

(e) Allowance for credit losses

Central maintains an allowance for credit losses which, in management's opinion, is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items, including loans, derivative instruments and other credit-related contingent liabilities, such as letters of credit and guarantees.

The allowance for credit losses consists of specific provisions and general provisions, which are both reviewed on a regular basis. The balance in the allowance for the credit losses account is deducted from the related asset category, except for provisions against off-balance sheet items, which are included in *Other liabilities* on the Consolidated Balance Sheet.

Specific provisions are determined on an item-by-item basis and reflect the associated estimated credit loss. Loans are reviewed at least quarterly to assess whether a loan should be classified as impaired and an allowance or write-off recorded.

In the case of loans, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of any expected realization costs and any amounts legally required to be paid to the borrower, or the observable market price for the loan, is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on expected future cash flows is included in the *Provision for credit losses* in the Consolidated Statement of Income and Retained Earnings.

General provisions are established to absorb probable credit losses on the aggregate exposures in each of Central's business lines for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon statistical analysis of past performance, the level of allowance already in place, and management's judgment.

The amount of the *Provision for credit losses* that is charged to the Consolidated Statement of Income and Retained Earnings is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that Central management considers adequate to absorb all credit-related losses in its portfolio of on- and off-balance sheet items after charging amounts written off during the year, net of recoveries, to the allowance for credit losses account.

(f) Loan securitizations

When Central sells receivables by securitizing residential mortgage loans, it retains one or more subordinated tranches and, in some cases, a cash reserve account - all of which represent a retained interest in the securitized receivables. Gain or loss on the sale of the receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer, and is recognized at the time of securitization.

Central classifies its retained interests in securitization as investment securities. These retained interests are recorded at an allocated carrying amount, which is their fair value at the time of sale.

(g) Fixed assets

Fixed assets are stated at cost, less accumulated amortization. Office furniture, computer equipment and software are amortized over their estimated useful life of one to 10 years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives and the underlying lease terms. Gains and losses on disposal are recorded in *Financial services and other income* in the Consolidated Statement of Income and Retained Earnings.

(h) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the Consolidated Balance Sheet date. Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year except for amortization, which is based on the historical Canadian dollar cost of the related assets.

Realized and unrealized gains and losses on foreign currency assets and liabilities are recorded in *Financial services and other income* in the Consolidated Statement of Income and Retained Earnings.

(i) Derivative instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices.

In the ordinary course of business, Central enters into various derivative contracts, including interest rate and foreign exchange forwards, futures, swaps, and options. Derivative contracts are either exchange-traded contracts (including futures and options) or negotiated over-the-counter contracts (including forwards, swaps and options). Central enters into such contracts to manage its exposure to interest rate fluctuations as part of Central's asset liability management program. Central also manages other yield enhancement positions to profit from pricing anomalies and offsets the position risk by entering into contracts in other related markets.

Trading derivatives entered into for yield enhancement purposes are marked-to-market and the resulting net gains or losses are recognized as *Net gain (loss) on sale of securities* in the Consolidated Statement of Income and Retained Earnings in the current year. Unrealized gains on contracts in a favourable position are included in *Other assets* and unrealized losses on those contracts in an unfavourable position are recorded in *Other liabilities* on the Consolidated Balance Sheet. Fair values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors.

Central formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions. Central also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Swaps and forwards entered into for the purpose of managing Central's currency and interest rate exposures are accounted for on the accrual basis. Premiums on options entered into for this purpose are amortized to income over the life of the related assets or liabilities. Futures and options entered into for this purpose are marked-to-market and the unrealized gains and losses are deferred and amortized to income over the life of the related assets or liabilities. Accrued interest, receivable or payable, is recorded in *Other assets* or *Other liabilities* in the Consolidated Balance Sheet as applicable. Interest income or expense and amortization of option premiums are included in *Interest income – Securities* in the Consolidated Statement of Income and Retained Earnings.

Central designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is recorded separately from payments made or received under the interest rate swaps.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency assets and liabilities are accrued under *Other assets* or *Other liabilities*, and recognized currently in *Financial services and other income*, offsetting the respective translation losses and gains recognized on the underlying foreign currency assets and liabilities.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under *Other assets* or *Other liabilities* on the Consolidated Balance Sheet and recognized in income in the year in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(j) Income taxes

Central follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

Future tax assets and liabilities are recorded either in *Other assets* or *Other liabilities*, as applicable, in the Consolidated Balance Sheet.

(k) Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

Central enters into short-term agreements whereby it purchases and simultaneously commits to resell securities, or sells and simultaneously commits to repurchase securities, at a specified price on a specified date. These transactions are recorded at cost. Interest income (resale agreements) and interest expenses (repurchase agreements) are recorded on an accrual basis.

(l) Obligations related to securities sold short

Central's obligation to deliver securities sold that were not owned at the time of sale is recorded at fair value. Adjustments to fair value are recorded as *Net gain (loss) on sale of securities* in the Consolidated Statement of Income and Retained Earnings.

(m) Employee benefit plans

Central accrues its obligations under employee benefit plans (including pension plans and post-retirement plans other than pensions) and the related costs, net of plan assets. Central has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs;
- for the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment;
- the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is currently 18 years. The average remaining service period of the active employees covered by the other post-retirement plans is 19 years; and
- when the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(n) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(o) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. CHANGES IN ACCOUNTING POLICY AND RECENTLY ISSUED STANDARDS NOT YET IMPLEMENTED

(a) Changes in accounting policy

(i) Variable interest entities (VIEs)

In June 2003, an accounting guideline was issued to address the consolidation of VIEs. VIEs are entities that have insufficient equity and/or their equity investors lack one or more of the specified essential characteristics of a controlling financial interest. Under the requirements of this guideline, a VIE must be consolidated by its primary beneficiary, i.e., the entity that will absorb the majority of expected losses and/or that has the possibility of receiving the expected residual returns. Central was not the primary beneficiary of a VIE in 2005.

(b) Recently issued standards not yet implemented

(i) Other comprehensive income

In January 2005, the Accounting Standards Board (AcSB) issued new standards for the reporting and display of comprehensive income.

Unrealized gains and losses on financial assets that will be held as available for sale and changes in the fair value of cash flow hedging instruments will be recorded in a Consolidated Statement of Other Comprehensive Income until recognized in the Consolidated Statement of Income. *Other comprehensive income* will form part of shareholders' equity.

The impact of implementing these new standards is not yet determinable as it is dependent on Central's outstanding positions, hedging strategies and market volatility at the time of adoption.

These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2007.

(ii) Equity

In January 2005, the AcSB issued standards to replace *Handbook* Section 3250, *Surplus*. This Section requires an enterprise to present a separate component of equity for each category of equity that is of a different nature.

These standards are effective for fiscal years beginning on or after January 1, 2007.

(iii) Financial instruments

- *Disclosure and presentation*

  In April 2005, the AcSB issued standards, that replaces *Handbook* Section 3860, addressing the presentation of financial statement instruments and non-financial derivatives, and identify the information that should be disclosed about them, including new disclosure requirements about fair value.

  These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2007.

- *Recognition and measurement*

  In January 2005, the AcSB issued new standards for the recognition and measurement of financial instruments. Under the new standard, all financial instruments will be classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. Financial assets and liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available for sale instruments will be measured at fair value with gains and losses recognized in *Other comprehensive income*. The standard also permits the re-designation of any financial instrument as held-for-trading upon initial recognition.

  These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2007.

- *Hedges*

  In January 2005, the AcSB issued new standards which specify the circumstances under which hedge accounting is permissible and how hedge accounting may be performed.

  Fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation are available under the new Hedges Section. In a fair value hedging relationship, the carrying value of the hedge item is adjusted by gains or losses attributable to the hedged risk and recorded in *Net interest income*. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative will be recognized in *Other comprehensive income*. The ineffective portion will be recognized in *Net income*. The amounts recognized in *Accumulated other comprehensive income* will be reclassified to *Net income* in the periods in which *Net income* is affected by the variability in the cash flows of the hedged item.

(iv) Non-monetary transactions

In June 2005, the AcSB issued a new standard to revise and replace the current standards on non-monetary transactions to require that all non-monetary transactions be measured at fair value unless certain criteria are met.

This revised standard is effective for non-monetary transactions initiated in fiscal periods beginning on or after January 1, 2006, and early adoption is permitted only as of the beginning of a fiscal period beginning on or after July 1, 2005.

3. RESTRUCTURING COSTS

In 2004, $188,000 was established for certain contractually committed costs in connection with the restructuring of Central's operations.

4. SECURITIES

Below is an analysis of the carrying value and unrealized gains and losses on investment securities:

2005 *(in thousands)*	**Carrying value**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Securities:				
Government	**$ 295,314**	**$ 2,171**	**$ (138)**	**$ 297,347**
Chartered bank	**522,906**	**301**	**(1,529)**	**521,678**
Other debt	**191,605**	**–**	**(1,184)**	**190,421**
	$ 1,009,825	**$ 2,472**	**$ (2,851)**	**$ 1,009,446**
Co-operative investments (note 19c)	**13,460**	**–**	**–**	**–**
	$ 1,023,285	**$ –**	**$ –**	**$ –**

2004 *(in thousands)*	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities:				
Government	$ 352,663	$ 4,873	$ (124)	$ 357,412
Chartered bank	583,006	327	(62)	583,271
Other debt	131,004	77	(5)	131,076
	$ 1,066,673	$ 5,277	$ (191)	$ 1,071,759
Co-operative investments (note 19c)	13,152	–	–	–
	$ 1,079,825	$ –	$ –	$ –

Central has pledged securities in the amount of $73,200,000 (2004 - $73,200,000) as security for clearing activity, investment transactions, and external borrowings. In addition, Central has borrowed securities with a market value of $34,131,000 (2004 - $34,486,000) and pledged securities with a collateral value of 124% of the borrowed securities (2004 – 108%). Pursuant to a change in accounting policy, Central had reversed its provisions for credit losses on investments of $300,000 in 2004.

Central held trading securities included in *Government* securities above totaling $10,322,000 (2004 - $10,651,000).

5. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

Central acquired certain securities and simultaneously agreed to resell them at a mutually agreed rate of return at a future date. The carrying value of these securities as at December 31, 2005 was $234,788,000 (2004 - $27,960,000) with a collateral value of 103%.

6. LOANS

(a) Loans

(in thousands)	**2005**	2004
Members' loans	**$ 347,702**	$ 220,965
Residential mortgage loans	**8,309**	9,052
Commercial, syndicated and other loans	**146,152**	113,112
	502,163	343,129
Allowance for credit losses	**(2,718)**	(2,054)
	$ 499,445	$ 341,075

Members' loans are comprised substantially of lines of credit and term loans that bear interest at fixed or floating rates and are secured by general security agreements over the respective credit union's assets. Residential mortgage loans are issued for a maximum term of twenty-five years and bear interest primarily at fixed rates with a maximum repricing period of five years. Commercial, syndicated and other loans are issued on both a fixed and floating interest rate basis and are secured primarily by real property, inventory or accounts receivable of the borrowers.

(b) Impaired loans

(in thousands)	**Gross Impaired**	**Specific Provision**	**General Provision**	**2005 Net Amount**	2004 Net Amount
Members' loans	$ –	$ –	$ –	**$ –**	$ –
Residential mortgages loans	–	–	(9)	**(9)**	(13)
Commercial, syndicated and other loans	3,615	(1,261)	(1,448)	**906**	(839)
	$ 3,615	$ (1,261)	$ (1,457)	**$ 897**	$ (852)

The net investment in residential mortgages and commercial, syndicated and other loans for which a general provision for credit losses has been established amounts to $8,309,000 and $144,733,000, respectively.

(c) Allowance for credit losses

The activity in the allowance for credit losses and resulting year-end balances are detailed below:

(in thousands)	**Specific Provision**	**General Provision**	**2005 Total**	2004 Total
Balance, beginning of year	$ 904	$ 1,150	**$ 2,054**	$ 2,135
Collection of loans previously written-off	–	–	**–**	–
Loans written-off as uncollectible	–	–	**–**	(395)
Provision for credit losses	357	307	**664**	314
Balance, end of year	$ 1,261	$ 1,457	**$ 2,718**	$ 2,054

The allowance for credit losses has been established in accordance with generally accepted accounting principles and also complies with the applicable regulatory standards.

(d) Interest income – loans

Interest income from loans is comprised of:

(in thousands)	**2005**	2004
Members' loans	**$ 8,997**	$ 5,129
Residential mortgage loans	**350**	389
Commercial, syndicated and other loans	**7,768**	7,394
	$ 17,115	$ 12,912

7. OTHER ASSETS

(in thousands)	**2005**	2004
Accrued interest	**$ 10,280**	$ 9,266
Accounts receivable	**3,428**	291
Unrealized gains on derivatives	**11,538**	21,240
Prepaid and deferred costs	**3,195**	3,383
Fixed assets, net of accumulated amortization of $11,050 (2004 - $14,250)	**1,932**	1,422
	$ 30,373	$ 35,602

8. MEMBERS' DEPOSITS

(a) Deposits

(in thousands)	**2005**	2004
Current accounts	**$ 150,855**	$ 163,130
Demand deposits	**10,654**	12,698
Term deposits	**128,352**	79,774
Bond deposits and discount deposits	**460,331**	409,054
Non-callable deposits	**100**	160
Liquidity reserve deposits	**712,537**	612,713
	$ 1,462,829	$ 1,277,529

Liquidity reserve deposits are received from members in accordance with a Central by-law that requires each member to maintain on deposit an amount equal to 5% of the credit union's own share capital and deposit accounts adjusted annually through an update procedure. Amounts on deposit are callable within 90 days. Secondary liquidity reserve deposits of 2% of the credit union's own share capital and deposit accounts must be invested in qualifying liquidity deposit instruments with Central.

(b) Interest expense

Interest expense is comprised of:

(in thousands)	**2005**	2004
Current accounts	**$ 796**	$ 533
Demand deposits	**141**	308
Term deposits	**2,560**	1,454
Bond deposits and discount deposits	**12,423**	11,994
Non-callable deposits	**4**	5
Liquidity reserve deposits	**19,250**	15,211
External borrowings	**5,083**	4,720
	$ 40,257	$ 34,225

9. OTHER LIABILITIES

(in thousands)	**2005**	2004
Accrued interest	**$ 12,257**	$ 9,188
Unrealized losses on derivatives	**10,615**	23,125
Accounts payable and other liabilities	**10,798**	7,027
	$ 33,670	$ 39,340

10. MEMBERSHIP SHARES

As a condition of membership, Central's members are required to maintain an investment in share capital, which is adjusted annually. Effective January 1, 2005, Central's new membership by-laws require that each member maintain share capital of 0.60% (2004 – 1.30%) of its own shares and deposits with no maximum in 2005 (2004 - $1,635,000). Subject to approval by the Board of Directors and compliance with statutory provisions, share capital is redeemable at the option of the member and is classified as a liability on the Consolidated Balance Sheet. Notwithstanding the financial statement classification of Central's share capital, membership shares qualify as regulatory capital.

11. DIVIDEND

On February 3, 2006, the Board of Directors declared a dividend in respect of 2005 operations of $3,822,000 (declared in 2005 in respect of 2004 operations - $1,967,000), calculated at a rate of 4.2% (2004 – 2.25%) on the average share capital outstanding during 2005. The dividend is payable on or before February 28, 2006, to members of record on December 31, 2005 and will be recorded in the Consolidated Statement of Income and Retained Earnings in 2006.

Central records dividends declared as an expense on the Consolidated Statement of Income and Retained Earnings as a result of classifying membership shares as a liability.

12. CAPITAL REQUIREMENTS

Regulations to the *Credit Unions and Caisses Populaires Act, 1994* (Ontario) prescribe the ratio of regulatory capital to be at least 5% of total assets. The *Cooperative Credit Associations Act* (Canada) requires the maximum ratio of debt-to-capital to be 20-to-1 after adjustments for investments in subsidiaries and certain affiliates.

Central is in compliance with these capital requirements as at December 31, 2005. The regulatory capital ratio amounted to 5.97% (2004 – 6.37%) of total assets and the ratio of debt-to-capital was 16.9-to-1 (2004 – 15.4-to-1).

13. INCOME TAXES

The *Provision for income taxes* recorded in the Consolidated Statement of Income and Retained Earnings is composed of the following:

(in thousands)	**2005**	2004
Current income taxes:		
Federal	**$ 292**	$ 233
Provincial	**30**	98
	322	331
Future income taxes:		
Federal	**251**	(132)
Provincial	**105**	(55)
	356	(187)
Total	**$ 678**	$ 144

The components of future income tax balances are as follows:

(in thousands)	**2005**	2004
Future income tax assets:		
Premises and equipment	**$ 173**	$ 156
Allowance for credit losses	**267**	209
Other	**(33)**	397
Total	**$ 407**	$ 762

The *Provision for income taxes* that is reported in the Consolidated Statement of Income and Retained Earnings varies from that obtained by applying statutory income tax rates to the income before provision for income taxes for the following reasons:

(in thousands)	**2005**		2004	
Combined federal and provincial income taxes and statutory tax rate	**$ 791**	**18.6%**	$ 408	18.6%
Increase (decrease) due to:				
Tax exempt income from securities	**(30)**	**(0.7)**	(72)	(3.3)
Non-deductible expenses	**14**	**0.4**	16	0.7
Corporate minimum tax	**(190)**	**(4.4)**	(183)	(8.3)
Other, net	**23**	**0.5**	(129)	(5.9)
Large corporations tax	**70**	**1.6**	104	4.7
Provision for income tax and effective tax rate	**$ 678**	**16.0%**	$ 144	6.5%

The combined federal and provincial statutory tax rate of 18.6% includes federal abatement, corporate surtaxes, small business and other additional deductions eligible to credit unions. Large Corporations Tax is calculated at the rate of 0.175% of taxable capital (2004 – 0.2%) in excess of $50,000,000 (2004 - $50,000,000).

14. CREDIT FACILITIES

Central has an operating line of credit with Credit Union Central of Canada (CUCC) of $75,000,000 that has no outstanding balance at December 31, 2005 (2004 - nil) at wholesale prime rates that is secured by an assignment of Central's book debts, Central's deposits in CUCC ($22,315,000) and Central's investment in the shares of CUCC ($5,225,000) at December 31, 2005.

In addition, Central has operating lines of credit with other financial institutions totaling $13,500,000 at prime rates plus 1% with an outstanding balance of nil in 2005 (2004 - nil). These lines are established for cash parcel services, money orders, wire transfers, guarantees and letters of credit on behalf of member credit unions.

15. RELATED PARTY TRANSACTIONS

(a) Stabilization Fund Corporation

Central acts as administrator of the Stabilization Fund Corporation (the Corporation). The one outstanding share of the Corporation, issued for nominal consideration, is held in trust by Central on behalf of its members. The Corporation provides limited loss prevention and rehabilitation activities for member credit unions through a long-term endowment of $3,000,000 and administers the Credit Union Deductible Fund to help manage the costs of bonding, errors and omissions, and directors' liability insurance to the credit union system.

In 2005, the Corporation was charged $12,000 (2004 - $12,000) for administrative services provided by Central. In addition, the Corporation has agreed to reimburse Central for costs of $34,000 (2004 - $53,000) to support loss prevention programs and an additional $97,000 (2004 - $97,000) for ongoing support of the operations manuals program for the members of Central. These amounts have been reflected at the exchange amount in the consolidated financial statements.

(b) Other

Remuneration to directors and committee members was $137,000 (2004 - $185,000) and other expenses for the Board and committees were $403,000 for the year (2004 - $525,000).

16. COMMITMENTS, CONTINGENT LIABILITIES AND GUARANTEES

(a) Loans

As at December 31, 2005, Central had loaned $347,702,000 to members against approved credit facilities of $706,439,000 and had outstanding letters of credit of $7,377,000 against an authorized limit of $22,242,000. In addition, Central had advanced $146,152,000 against approved commercial loan commitments and credit lines of $162,107,000 and had authorized and issued $1,956,000 in commercial letters of credit.

(b) Lease commitments

Minimum annual lease payments required under operating leases for premises and equipment were as follows:

(in thousands)	
2006	$ 716
2007	715
2008	706
2009	728
2010	728
Thereafter	2,980
	$ 6,573

(c) Mortgage securitizations

Central's mortgage securitization programs expand the lending capacity of participating credit unions whereby eligible mortgages are financed by external investors through independent securitization vehicles. The credit union continues to service the sold mortgages and as an intermediary, Central is responsible for fund collection, reporting and other administration including certifying the credit union's lending practices to permit participation in the programs.

Central is committed to act as a stand-by servicer. In certain limited circumstances relating to credit union options to repurchase maturing mortgages, Central could become obligated to repurchase specific maturing mortgages. In addition, Central provides credit enhancement to the independent securitization vehicles for the purpose of maintaining an investment grade credit for investment notes issued by the trusts. Central also provides backstop liquidity facilities to one of the trust's commercial paper programs in the event of market disruptions. Credit enhancement provided by means of a guarantee amount of $32,387,000 as at December 31, 2005, and mortgages with a total outstanding balance of $335,067,000 are being administered in the securitization programs ($22,344,000 of this amount is administered under the commercial paper program). It is management's opinion that Central's future obligation under this securitization program will not have a material effect, if any, on Central's cash flows. Central has not recorded any related liability as at December 31, 2005, with respect to these facilities.

In 2004, Central expanded its residential mortgage securitization programs to provide credit unions with the opportunity to sell smaller pools of mortgages. Central aggregates these pools of mortgages into larger, more diversified pools, and subsequently sells the combined pool of mortgages to a special purpose trust on the same day. This arrangement is referred to as Central's Mortgage Purchase and Securitization Program. The credit union retains servicing responsibility for the mortgages with Central acting as the back up servicing agent. Central receives no explicit servicing fee for this responsibility and retains a beneficial interest in the mortgages by purchasing subordinated notes in the trust.

The rights to future cash flows arising after the investors in the trust have received the return for which they contracted, and credit enhancement to the trust using cash collateral accounts, flow contractually from the trust to Central and back to the originating credit union on the same day. The investors and the trust have no recourse to Central's other assets for failure of debtors to pay when due other than Central's investment in the trust's subordinated notes. As a result of these arrangements, Central realizes no gain or loss on the sale of mortgages under these securitizations.

The following tables summarize quantitative information about Central's Mortgage Purchase and Securitization Program:

(in thousands)	**2005**	2004
Type of loan		
Residential mortgage loans purchased		
Total principal amount of loans	**$ 61,506**	$ 74,273
Principal amount of loans 60 days or more past due	**$ –**	$ –
Average balances	**$ 82,000**	$ 24,472
Net credit losses	**$ –**	$ –

The following table summarizes cash flows received from and paid to the trust during the year:

(in thousands)	**2005**	2004
Proceeds from new securitizations	**$ 137,764**	$ 76,802
Other securitization revenue	**37**	10
Cash flows received on retained interests, net of payments made to credit unions	**–**	–
Purchases of delinquent or foreclosed assets	**–**	–

(d) Indemnification agreements

In the ordinary course of business, Central provides indemnification commitments to counterparties in various service and administrative agreements. Under these indemnification agreements, Central may be required to compensate counterparties for costs or damages incurred as a consequence of the relationship. Central also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, a director or officer at Central's request.

The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Due to the nature of these agreements it is expected that any future payments would be nominal. Historically, Central has not made any significant payments under such indemnifications and no amount has been accrued in the consolidated financial statements with respect to these commitments. Further, for those service and indemnification agreements entered into with third party services on behalf of member credit unions, Central has entered into similar indemnification agreements with these credit unions, offsetting any potential liability.

17. DERIVATIVE INSTRUMENTS

In the normal course of business, interest rate swap contracts, options and forward rate agreements are outstanding and are not reflected in the consolidated financial statements. Central enters into these off-balance sheet instruments as a service to meet the needs of its members and to manage exposures to interest rate fluctuations. Central also manages yield enhancement positions to profit from pricing anomalies and offsets the position risk by entering into contracts in other related markets.

Interest rate swaps are contracts between two parties in which interest obligations are exchanged on a specified notional principal amount for a predetermined period based on agreed upon fixed and floating rates. *Options* are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option) at or by a set date a specific amount of a financial instrument at a predetermined price. In consideration for the assumption of risk, the seller receives a premium from the purchaser. *Forward rate agreements* call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate based on a notional principal amount.

The table below provides an analysis of Central's derivative portfolio and related credit exposure:

(in thousands)	**2005**		2004	
	Notional amount	**Current replacement cost**	Notional amount	Current replacement cost
Asset Liability Management (ALM)				
Interest rate contracts:				
Interest rate swaps	**$ 1,065,930**	**$ 1,775**	$ 1,031,463	$ 1,909
Equity contracts:				
Options written	**144,136**	**–**	180,267	–
Options purchased	**144,107**	**34,507**	180,300	23,051
Foreign exchange contracts:				
Spot and forward contracts	**–**	**–**	18,350	–
Total ALM	**$ 1,354,173**	**$ 36,282**	$ 1,410,380	$ 24,960
Yield enhancement				
Interest rate contracts:				
Interest rate swaps	**$ 3,139,668**	**$ 11,445**	$ 3,202,538	$ 20,242
Forward rate agreements	**–**	**–**	80,000	33
Swaptions	**–**	**–**	850,000	444
Options written	**–**	**–**	285,000	–
Options purchased	**250,000**	**–**	270,000	517
Exchange traded futures	**80,000**	**–**	50,000	4
Foreign exchange contracts:				
Spot and forward contracts	**26,000**	**93**	–	–
Total yield enhancement	**$ 3,495,668**	**$ 11,538**	$ 4,737,538	$ 21,240
Total ALM and yield enhancement	**$ 4,849,841**	**$ 47,820**	$ 6,147,918	$ 46,200

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure.

Current credit exposure is limited to the amount of losses that Central would suffer if every counterparty to which Central is exposed were to default at once, which is represented by the *Current replacement cost* of all outstanding contracts in a gain position. These amounts, detailed above, do not consider the value on any collateral. Credit exposure is managed as part of the overall borrowing limits granted to customers. Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. Central attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy and by requiring counterparties to enter into master netting agreements. The credit risk associated with contracts in a favourable position is eliminated by these master netting agreements, only to the extent that contracts in an unfavorable position with the same counterparty will not be settled before the favourable contracts. Central's overall exposure to credit risk on derivative instruments, subject to a master netting agreement, can change substantially within a short period since it is affected by each transaction subject to the agreement.

The following table summarizes the fair value of Central's derivative portfolio at December 31, 2005, and segregates derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position:

(in thousands)	**2005**		2004	
	Total favourable position	**Total unfavourable position**	Total favourable position	Total unfavourable position
ALM				
Interest rate contracts:				
Interest rate swaps	**$ 1,775**	**$ (5,557)**	$ 1,909	$ (5,583)
Equity contracts:				
Options written	**–**	**(34,507)**	–	(23,051)
Options purchased	**34,507**	**–**	23,051	–
Total ALM	**$ 36,282**	**$ (40,064)**	$ 24,960	$ (28,634)
Yield enhancement				
Interest rate contracts:				
Interest rate swaps	**$ 11,445**	**$ (10,465)**	$ 20,242	$ (22,149)
Forward rate agreements	**–**	**–**	33	(17)
Swaptions	**–**	**–**	444	(444)
Options written	**–**	**–**	–	(515)
Options purchased	**–**	**–**	517	–
Exchange traded futures	**–**	**(15)**	4	–
Foreign exchange contracts:				
Spot and forward contracts	**93**	**(136)**	–	–
Total yield enhancement	**$ 11,538**	**$ (10,616)**	$ 21,240	$ (23,125)
Total ALM and yield enhancement	**$ 47,820**	**$ (50,680)**	$ 46,200	$ (51,759)

Fair values of over-the-counter derivative instruments are determined using pricing models that take into account current market and contractual prices of underlying instruments as well as time value and yield curve or volatility factors underlying the positions.

The table below summarizes the notional amounts by counterparty:

(in thousands)	**2005**	2004
ALM		
Federally regulated banks	**$ 1,210,037**	$ 1,220,938
Credit unions	**144,136**	189,442
Total ALM	**$ 1,354,173**	$ 1,410,380
Yield enhancement		
Federally regulated banks	**$ 2,432,739**	$ 2,509,690
Credit unions	**982,929**	2,177,848
Others	**80,000**	50,000
Total yield enhancement	**$ 3,495,668**	$ 4,737,538
Total ALM and yield enhancement	**$ 4,849,841**	$ 6,147,918

The following table summarizes the notional amounts, by remaining term to maturity, of Central's derivative portfolio at December 31, 2005. It segregates derivative instruments between those used by Central in its yield enhancement activities and those used to manage its exposures to currency and interest rate fluctuations as part of Central's asset liability management program.

(in thousands)				**2005**	2004
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total
ALM					
Interest rate contracts:					
Interest rate swaps	$ 609,533	$ 386,287	$ 70,110	**$ 1,065,930**	$ 1,031,463
Equity contracts:					
Options written	37,150	106,986	–	**144,136**	180,267
Options purchased	37,120	106,987	–	**144,107**	180,300
Foreign exchange contracts:					
Spot and forward contracts	–	–	–	**–**	18,350
Total ALM	$ 683,803	$ 600,260	$ 70,110	**$ 1,354,173**	$ 1,410,380
Yield enhancement					
Interest rate contracts:					
Interest rate swaps	$ 1,668,600	$ 1,379,039	$ 92,029	**$ 3,139,668**	$ 3,202,538
Forward rate agreements	–	–	–	**–**	80,000
Swaptions	–	–	–	**–**	850,000
Options written	–	–	–	**–**	285,000
Options purchased	250,000	–	–	**250,000**	270,000
Exchange traded futures	80,000	–	–	**80,000**	50,000
Foreign exchange contracts:					
Spot and forward contracts	26,000	–	–	**26,000**	–
Total yield enhancement	$ 2,024,600	$ 1,379,039	$ 92,029	**$ 3,495,668**	$ 4,737,538
Total ALM and yield enhancement	$ 2,708,403	$ 1,979,299	$ 162,139	**$ 4,849,841**	$ 6,147,918

18. INTEREST RATE SENSITIVITY

Central uses interest rate sensitivity and value-at-risk analysis (VaR) to monitor and manage interest rate risk.

Interest rate sensitivity measures the difference between the amount of assets and liabilities that reprice in a particular time period, plus the net off-balance sheet instruments repricing in the same period. The off-balance sheet gap represents the notional amounts of off-balance sheet financial instruments such as interest rate swaps, options and forward rate agreements, which are used to manage interest rate risk.

Central's interest rate sensitivity position at December 31, 2005, as presented in the following table, is based upon the earlier of contractual repricing or maturity date of assets and liabilities. The table shows the cumulative gaps at various intervals with the impact of off-balance sheet contracts shown separately. A sustained increase in interest rates of 100 basis points would lower Central's forecast interest margin by 5.5%.

Simulation modeling and value-at-risk analyses allow Central to review its interest rate exposure more dynamically. VaR measures the change of the present value of future cash flows for a potential change in interest rates at a specified confidence level. Simulation models take explicit account of pricing strategies, the growth, volume and mix of future business, in addition to future changes in interest rates.

	Earlier of contractual repricing or maturity periods							
(in thousands)	**Within 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non-rate sensitive**	**Total**	**Average yield %**
Assets								
Cash resources	$ 159,258	$ –	$ –	$ –	$ –	$ 29,516	$ 188,774	2.05
Securities	374,852	76,767	333,613	121,509	90,162	26,382	1,023,285	3.86
Securities purchased under resale agreements	234,788	–	–	–	–	–	234,788	3.17
Loans	403,100	6,164	20,880	69,301	–	–	499,445	4.42
Other assets	–	–	–	–	–	30,373	30,373	–
	$1,171,998	$ 82,931	$ 354,493	$ 190,810	$ 90,162	$ 86,271	$ 1,976,665	3.69
Weighted average yield rate (%)	3.39	5.23	4.28	5.23	4.49			
Liabilities and members' equity								
Members' deposits	$ 792,119	$ 176,236	$ 235,298	$ 259,031	$ –	$ 145	$ 1,462,829	2.90
Obligations related to securities sold under repurchase agreements	78,698	–	–	–	–	–	78,698	2.23
Obligations related to securities sold short	–	–	10,219	251,682	21,611	–	283,512	4.71
Other liabilities	–	–	–	–	–	33,670	33,670	–
Membership shares	–	–	–	–	–	92,949	92,949	–
Retained earnings	–	–	–	–	–	25,007	25,007	–
	$ 870,817	$ 176,236	$ 245,517	$ 510,713	$ 21,611	$ 151,771	$ 1,976,665	2.91
Weighted average yield rate (%)	2.56	3.05	3.38	4.00	5.13			
On-balance sheet gap	$ 301,181	$ (93,305)	$ 108,976	$ (319,903)	$ 68,551	$ (65,500)	$ –	0.78
Off-balance sheet								
Receiving	2,338,070	306,700	768,400	1,015,322	27,106	394,242	4,849,840	3.29
Paying	(2,757,761)	(275,232)	(435,600)	(750,005)	(67,000)	(564,242)	(4,849,840)	(3.39)
Off-balance sheet gap	(419,691)	31,468	332,800	265,317	(39,894)	(170,000)	–	(0.10)
Weighted average yield (%)								
Receiving	2.88	3.52	3.52	3.98	4.85			
Paying	(3.28)	(2.79)	(3.60)	(3.84)	(4.14)			
Total interest rate sensitivity gap	$ (118,510)	$ (61,837)	$ 441,776	$ (54,586)	$ 28,657	$ (235,500)	$ –	0.68
Cumulative interest rate sensitivity gap	**$ (118,510)**	**$(180,347)**	**$ 261,429**	**$ 206,843**	**$ 235,500**	**$ –**	**$ –**	**–**

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value amounts of Central's financial instruments have been estimated using the valuation methods and assumptions, which are outlined below:

(a) Financial instruments valued at carrying value

The carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values due to their short-term nature or repricing frequency. These financial instruments include cash resources, certain other assets, other liabilities, and membership shares.

(b) Securities other than co-operative investments

The estimated fair values of securities other than co-operative investments are based on either observable market prices or discounting the expected future cash flows at prevailing market interest rates.

(c) Co-operative investments

Co-operative investments are carried at cost. As there is no available trading market for co-operative shares, fair values cannot be readily determined with sufficient reliability, and the estimated fair value of securities presented in these consolidated financial statements does not include any unrealized gains or losses for co-operative investments. The following table presents the book values reflected in these consolidated financial statements, Central's share of the ownership in the companies, and Central's proportionate equity interest at the last reported fiscal year end, December 31, 2004 (September 30, 2004 for Ethical Funds Inc., Credential Financial Inc. and Credential Securities Inc.) in the underlying book values reported by each of the co-operatives.

In accordance with the by-laws of The Co-operators Group, Central's equity interest in the net assets of The Co-operators Group is realizable only in the event of liquidation, dissolution or windup. Other co-operative investments are, in addition, also transferable.

	2005	2004		
(in thousands)	**Book value**	Book value	Ownership share	Equity interest
Credit Union Central of Canada	**$ 5,225**	$ 5,254	19%	$ 5,562
Credential Financial Inc.:				
Class B common shares	**17**	17	8%	736
Credential Securities Inc.:				
Debentures	**657**	657	7%	657
Concentra Financial (formerly Co-operative Trust Company of Canada):				
Voting shares	**3**	3	9%	3
Non voting shares	**4,494**	4,494	13%	7,477
Ethical Funds Inc.:				
Shares	**–**	–	17%	1,671
Subordinated shareholders loan	**661**	661	17%	661
Mutual Fund startup contributions	**382**	331	–	331
The Co-operators Group:				
Co-op shares	**1**	1	14%	114,541
Member participation shares	**557**	271	5%	271
Class B Series A non-cumulative preference shares redeemable at par	**213**	213	3%	213
Class C Series A non-cumulative preference shares	**1,250**	1,250	14%	1,250
	$ 13,460	$ 13,152		$ 133,373

(d) Loans

For variable rate loans that reprice frequently, estimated fair values are assumed to be equal to the carrying value. The fair value of other loans is determined by discounting the expected future cash flows at prevailing market interest rates.

(e) Members' deposits

For variable rate deposits that reprice frequently, estimated fair values are assumed to be equal to the carrying value. The fair value of other deposits is determined by discounting the contractual cash flows using prevailing market interest rates.

The estimated fair value of Central's financial instruments at December 31, 2005, was as follows:

	2005		2004	
(in thousands)	**Book Value**	**Fair Value**	Book Value	Fair Value
Assets				
Cash resources	**$ 188,774**	**$ 188,975**	$ 194,641	$ 194,641
Securities	**1,023,285**	**1,022,906**	1,079,825	1,084,911
Securities purchased under resale agreements	**234,788**	**234,741**	27,960	27,958
Loans	**499,445**	**503,574**	341,075	347,871
Other assets	**28,441**	**28,441**	34,181	34,181
	$ 1,974,733	**$ 1,978,637**	$ 1,677,682	$ 1,689,562
Liabilities				
Members' deposits	**$ 1,462,829**	**$ 1,458,823**	$ 1,277,529	$ 1,277,931
Other liabilities	**33,670**	**33,670**	39,340	39,340
Obligations related to securities sold under repurchase agreements	**78,698**	**78,672**	98,850	98,835
Obligations related to securities sold short	**283,512**	**283,404**	156,477	156,696
Membership shares	**92,949**	**92,949**	85,473	85,473
	$ 1,951,658	**$ 1,947,518**	$ 1,657,669	$ 1,658,275
Off-balance sheet				
ALM interest rate contracts	**$ –**	**$ (3,782)**	$ –	$ (5,559)
Equity contracts	**–**	**–**	–	–
	$ –	**$ (3,782)**	$ –	$ (5,559)

The fair value amounts are designed to approximate amounts at which instruments could be exchanged in a current transaction between willing parties; however, some of Central's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as fixed assets. As explained in Note 19(c), the fair value of co-operative investments cannot be readily determined. Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the financial instruments.

Interest rate sensitivity is the main cause of change in the fair value of Central's financial instruments. The carrying values of Central's financial instruments are not adjusted to reflect unrealized increases or decreases in fair value due to interest rate changes, except for those instruments entered into for yield enhancement purposes, which are carried at their fair value.

20. SEGMENT DISCLOSURES

Central's reportable segments are strategic business units that offer different products and services. Central has three reportable segments: financial, trade and shared services. Financial Services provides lending, liquidity, paper clearing, and electronic banking services to member credit unions. Trade Services provides government relations, market development, communications, reference publications and regional development support to member credit unions. Shared Services includes accounting, information and technology services, corporate administration, internal human resources, general counsel and democracy and governance. Shared Services are provided internally to the other two business units at Central and are allocated based on usage.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Central evaluates performances based on the profit or loss from ongoing operations before restructuring costs, dividends and income taxes.

The following is an analysis of Central's income from operations and total assets by operating segment:

2005 *(in thousands)*	**Financial Services**	**Trade Services**	**Shared Services**	**Total**
Financial margin	**$ 14,144**	**$ –**	**$ –**	**$ 14,144**
Non-interest revenue	**14,717**	**4,256**	**1,358**	**20,331**
Non-interest expense	**14,760**	**2,138**	**11,359**	**28,257**
Net contribution before shared service allocations	**14,101**	**2,118**	**(10,001)**	**6,218**
Shared service allocations	**(8,220)**	**(1,781)**	**10,001**	**–**
Income from ongoing operations	**$ 5,881**	**$ 337**	**$ –**	**$ 6,218**
Amortization of fixed assets	**$ 253**	**$ 29**	**$ 531**	**$ 813**
Segment assets *(in millions)*	**$ 1,973.5**	**$ 0.2**	**$ 3.0**	**$ 1,976.7**

2004 *(in thousands)*	Financial Services	Trade Services	Shared Services	Total
Financial margin	$ 10,728	$ –	$ –	$ 10,728
Non-interest revenue	14,773	3,522	1,676	19,971
Non-interest expense	14,356	2,589	11,216	28,161
Net contribution before shared service allocations	11,145	933	(9,540)	2,538
Shared service allocations	(7,566)	(1,974)	9,540	–
Income from ongoing operations	$ 3,579	$ (1,041)	$ –	$ 2,538
Amortization of fixed assets	$ 350	$ 24	$ 571	$ 945
Segment assets (in millions)	$ 1,676.6	$ 0.3	$ 2.2	$ 1,679.1

21. EMPLOYEE FUTURE BENEFITS

Central sponsors both a defined benefit and a defined contribution plan providing pension, other retirement and post-employment benefits to eligible employees. Central measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at September 30 of each year. Actuarial valuations for Central's principal pension and other benefit plans are generally required every three years. The most recent actuarial valuation was conducted as of December 31, 2002, and the date of the next required valuation is December 31, 2005. Actuarial valuations of the pension plan are made for Central's benefit plans based on a market-rated discount rate.

The following table presents information related to Central's benefit plans, including the amount recorded on the Consolidated Balance Sheet and the components of net periodic benefit cost:

	Pension Benefits		Other Benefits	
(in thousands)	**2005**	2004	**2005**	2004
Reconciliation of accrued defined benefit obligation				
Accrued benefit obligation, beginning of year	**$ 7,136**	$ 6,801	**$ 2,564**	$ 2,372
Service cost	**78**	107	**121**	121
Interest cost	**425**	411	**163**	153
Employees' contributions	**48**	66	**–**	–
Benefits paid	**(373)**	(344)	**(162)**	(82)
Plan amendments	**–**	95	**–**	–
Actuarial losses (gains)	**898**	–	**449**	–
Defined benefit obligation, end of year	**$ 8,212**	$ 7,136	**$ 3,135**	$ 2,564

	Pension Benefits		Other Benefits	
(in thousands)	**2005**	2004	**2005**	2004
Reconciliation of fair value of plan assets				
Fair value of plan assets, beginning of year	**$ 6,171**	$ 5,161	**$ –**	$ –
Actual return on plan assets	**837**	518	**–**	–
Employer contributions	**396**	770	**90**	82
Employee contributions	**48**	66	**–**	–
Benefits paid	**(373)**	(344)	**(90)**	(82)
Fair value of plan assets, end of year	**$ 7,079**	$ 6,171	**$ –**	$ –

The assumptions used in the measurement of Central's defined benefit obligations are shown in the following table:

	Pension Benefits		Other Benefits	
(in thousands)	**2005**	2004	**2005**	2004
Discount rate for current year expense	**6.00%**	6.00%	**6.25%**	6.25%
Discount rate for accrued benefit obligations	**5.25%**	6.00%	**5.25%**	6.25%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	**–**	–
Rate of compensation increase	**3.00%**	3.00%	**4.00%**	4.00%
Assumed overall health care cost trend rate	**–**	–	**4.50-9.00%**	4.50-9.00%

(in thousands)	Pension Benefits 2005	Pension Benefits 2004	Other Benefits 2005	Other Benefits 2004
Funded status				
Defined benefit obligation – end of year	**$ 8,212**	$ 7,136	**$ 3,135**	$ 2,564
Fair value of assets – end of year	**7,079**	6,171	**–**	–
Funded status – plan surplus/(deficit)	**(1,133)**	(965)	**(3,135)**	(2,564)
Employer contributions during period from measurement date to end of year	**93**	102	**–**	–
Unamortized transitional obligation	**32**	35	**1,710**	1,824
Unamortized net actuarial loss (gain)	**2,657**	2,214	**(177)**	(647)
Unamortized past service cost	**290**	306	**–**	–
Accrued benefit asset/(liability)	**$ 1,939**	$ 1, 692	**$ (1,602)**	$ (1,387)

The following table provides the amounts recognized in the Consolidated Balance Sheet at December 31, 2005:

(in thousands)	Pension Benefits 2005	Pension Benefits 2004	Other Benefits 2005	Other Benefits 2004
Prepaid benefit costs recorded in *Other assets*	**$ 1,939**	$ 1,692	**$ –**	$ –
Accrued benefit liability recorded in *Other liabilities*	**–**	–	**(1,602)**	(1,387)
Net amount recognized	**$ 1,939**	$ 1,692	**$ (1,602)**	$ (1,387)

Central's pension plan defined contribution, defined benefit and other expenses are as follows:

(in thousands)	Defined Contribution 2005	Defined Contribution 2004	Defined Benefit 2005	Defined Benefit 2004	Other Benefits 2005	Other Benefits 2004
Service cost	**$ 289**	$ 403	**$ 78**	$ 107	**$ 121**	$ 121
Interest cost	**–**	–	**425**	411	**163**	153
Actual negative (positive) return on plan assets	**–**	–	**(837)**	(518)	–	–
Experience gain (loss)	**–**	–	**372**	123	–	–
Amortization of net transition obligations	**–**	–	**3**	3	**114**	114
Amortization of past service costs	**–**	–	**16**	16	**–**	–
Amortization of net actuarial (gain)/loss	**–**	–	**83**	97	**(21)**	(23)
Net benefit plan expense	**$ 289**	$ 403	**$ 140**	$ 239	**$ 377**	$ 365

(a) Continuity of actuarial (gains) losses:

(in thousands)	Pension Benefits 2005	Pension Benefits 2004	Other Benefits 2005	Other Benefits 2004
Unrecognized actuarial (gain) loss, beginning of year	**$ 2,214**	$ 2,491	**$ (647)**	$ (670)
(Gain) loss arising from change in assumptions	**898**	(57)	**449**	–
(Excess) shortfall of actual return on plan assets	**(372)**	(123)	**–**	–
Amortization of unrecognized actuarial loss	**(83)**	(97)	**21**	23
Unrecognized actuarial (gain) loss, end of year	**$ 2,657**	$ 2,214	**$ (177)**	$ (647)

(b) Fair value of plan assets at year end are comprised of:

	Defined Contribution		Defined Benefit	
	2005	2004	**2005**	2004
Equities	**63.0%**	60.4%	**62.1%**	60.5%
Fixed income investments	**29.4**	29.1	**31.5**	30.1
Other	**7.6**	10.5	**6.4**	9.4
Total	**100.0%**	100.0%	**100.0%**	100.0%

(c) Continuity of unrecognized cost (benefit) of plan amendments:

	Pension Benefits		Other Benefit	
(in thousands)	**2005**	2004	**2005**	2004
Unrecognized cost of plan amendments, beginning of year	**$ 306**	$ 227	**$ –**	$ –
Cost (benefit) of plan amendments during the year	**–**	95	**–**	–
Amortization of unrecognized cost of plan amendments	**(16)**	(16)	**–**	–
Unrecognized cost (benefit) of plan amendments, end of year	**$ 290**	$ 306	**$ –**	$ –

(d) Sensitivity of assumptions

Key weighted-average economic assumptions used in measuring the pension benefit liability, other benefits liability and related expenses are outlined below. The sensitivity analysis provided in the table should be used with caution as it is hypothetical and changes in each assumption may not be linear and have been calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

Pension Benefits *(in thousands)*	**Benefit Liability**	**Benefits Expense**
Discount rate – 5.25%		
Impact of: 1% increase	$ (977)	$ (55)
1% decrease	1,371	89
Expected rate of return on plan assets – 7.5%		
Impact of: 1% increase	–	(62)
1% decrease	–	62
Rate of compensation increase – 3.0%		
Impact of: 1% increase	489	81
1% decrease	(388)	(63)

Other Benefits *(in thousands)*	**Benefit Liability**	**Benefits Expense**
Assumed overall health care cost trend rate (4.5-9.0%)[1]	9.25%	9.25%
Impact of: 1% increase	548	73
1% decrease	(464)	(59)

[1] *Trending down to 4.5% in 2010 and remaining constant thereafter*

Five Year Financial Review

Components of Total Assets

(in thousands)	2001	2002	2003	2004	**2005**
Cash resources	$ 61,648	$ 124,228	$ 72,307	$ 194,641	$ 188,774
Securities	1,233,420	1,113,584	1,215,084	1,079,825	1,023,285
Securities purchased under resale agreements	–	64,125	185,794	27,960	234,788
Loans	139,139	147,620	236,017	341,075	499,445
Other assets	26,853	24,274	16,622	35,602	30,373
Total assets	**$ 1,461,060**	**$ 1,473,831**	**$ 1,725,824**	**$ 1,679,103**	**$ 1,976,665**

The impact credit union system growth has had on Central's balance sheet is most evident in Central's loan portfolio. Member credit unions supported the growth in their mortgage and personal loan portfolios with term loans, operating lines and securitization programs through Central. Credit unions also participated in Central's syndicated loan program to service the needs of Small and Medium Sized Enterprises (SME) in their communities. In 2005, member loans increased 57% to $348 million and commercial and syndicated loans increased 29% to $146 million. In 2006, Central will be introducing a short-term commercial paper program to access additional funds to support continued strong credit union growth.

Components of Liabilities and Retained Earnings

(in thousands)	2001	2002	2003	2004	**2005**
Members' deposits	$ 1,268,132	$ 1,279,161	$ 1,313,734	$ 1,277,529	$ 1,462,829
External borrowings and other obligations	55,979	62,933	280,197	255,327	362,210
Other liabilities and dividend payable	42,943	27,639	26,723	39,340	33,670
Membership shares	82,787	84,874	85,942	85,473	92,949
Retained earnings	11,219	19,224	19,228	21,434	25,007
Total liabilities and retained earnings	**$ 1,461,060**	**$ 1,473,831**	**$ 1,725,824**	**$ 1,679,103**	**$ 1,976,665**

System growth, including the addition of two new members joining Central in 2005, resulted in increase of $100 million in liquidity reserve deposits and $7 million in membership shares. A further $85 million increase in members' deposits represents growth in other discretionary funds invested with Central.

Financial Margin

(in thousands)	2001	2002	2003	2004	2005
Income					
Interest from cash resources and securities	$ 75,306	$ 46,568	$ 45,573	$ 32,055	$ 37,950
Interest from loans	9,685	8,752	10,831	12,912	17,115
Expense					
Interest expense	(62,273)	(38,134)	(40,365)	(34,225)	(40,257)
Provision for credit losses	(962)	(12)	(125)	(14)	(664)
Financial margin	**$ 21,756**	**$ 17,174**	**$ 15,914**	**$ 10,728**	**$ 14,144**

Central's financial margin of $14 million reflects the growth in Central's loan portfolio, and an increase in member deposits and improved yield enhancement activities in 2005.

Specific provisions for credit losses were required on commercial loans totaling $357 thousand while general provisions increased $307 thousand.

Income from Ongoing Operations

(in thousands)	2001	2002	2003	2004	2005
Income					
Financial margin	$ 21,756	$17,174	$ 15,914	$ 10,728	$ 14,144
Membership dues	3,335	3,354	3,328	3,330	4,060
Financial services and other income	16,607	16,331	16,593	16,641	16,271
Expense					
Salaries and benefits	(12,847)	(12,257)	(12,701)	(10,882)	(11,869)
Administrative and other	(10,737)	(11,862)	(12,454)	(12,630)	(12,691)
Occupancy and amortization	(4,572)	(4,510)	(4,624)	(4,649)	(3,697)
Income from ongoing operations	$ 13,542	$ 8,230	$ 6,056	$ 2,538	$ 6,218

Income from ongoing operations of $6 million represents a 6.8% return on invested capital and supports the payment of a 4.2% dividend in 2006.

Notes

Design: Mindshape Creative Marketing + Design

Governance and Management

Our Board and management believe that effective governance is essential to supporting and fostering the long-term vision for Credit Union Central. In 2005, Central's Board implemented the final recommendations of a governance review task force to improve our governance structure and effectiveness in keeping with industry best practices.

BOARD

Tim Bossence
Unigasco

Bruce Corbett
Your Credit Union

Fred Gorbet
Alterna Savings

Janet Grantham
Sydenham Community

Sean Jackson
Meridian

Scott Kennedy
Past Chair
Superior

Ron Koppmann
QuintEssential

Sheena Lucas
Chair
Independent

Alan Marentette
Teachers

Jack Morneau
Windsor - Essex County Catholic Parishes

Ian Russell
The Police

Dave Sitaram
Auto Workers

Jack Smit
Vice-Chair
St. Willibrord Community

COMMITTEES

Audit & Conduct Review Committee

Tim Bossence
Unigasco

Fred Gorbet
Alterna Savings

Sean Jackson
Chair
Meridian

Ian Russell
The Police

Dave Sitaram
Auto Workers

Governance Committee

Scott Kennedy
Superior

Ron Koppmann
QuintEssential

Alan Marentette Chair
Teachers

Jack Morneau
Windsor - Essex County Catholic Parishes

Jack Smit
St. Willibrord Community

Human Resources & Compensation Committee

Bruce Corbett
Your Credit Union

Janet Grantham
Sydenham Community

Scott Kennedy
Superior

Sheena Lucas
Chair
Independent

Jack Smit
St. Willibrord Community

Pension Committee

Ron Koppmann
QuintEssential

Jack Morneau
Chair
Windsor - Essex County Catholic Parishes

Dave Sitaram
Auto Workers

Rehabilitation Review Committee

Nick Driedger
Chair
Mennonite Savings

Sharon Kent
Member Savings

Heather MacDonald
Peoples

Mark Michener
Unity Savings

Steve Mumford
Rochdale

Beryl Roberto
Teachers

Dennis Wipp
Woodslee

MANAGEMENT

Senior Officers

Daniel Atlin
V.P., Corporate Services & Corporate Secretary

Howard Bogach
President and CEO

Phillip Braginetz
Chief Operating Officer

Norm Davidson
V.P., Information Technology Services & CIO

Stephen Ellis
V.P., Treasury and Lending

Jim MacDonald
Chief Financial Officer

Susan McNulty
Sr. V.P., Banking Services

Marie Parker
V.P., Human Resources

Dorothy Watson
Director, Member Relations & Member Service
Ombudsperson

Management Team

Wayne Ballard
Director, Development and Projects

Pamela Brewster
Director, Corporate Administration

Peter Collins
Administrative Director, Treasury & Lending

Gary Gratton
Director, IT Quality Assurance

Linda Jeffery
Director, Treasury Services

Julie McPhee
Director, Operations

Paul Martinello
Director, Web Services & Systems Development

Marian Read
Executive Assistant to the CEO

André Schroer
Director, Commercial Lending & Product Development

Sadhana Sharma
Director, Quantitative Risk

Ron Smith
Controller

CREDIT UNION CENTRAL
OF ONTARIO

2810 Matheson Blvd. East
Mississauga, Ontario
L4W 4X7

www.ecentral.cuco.on.ca
www.ontariocreditunions.com