

# **CREDIT UNION CENTRAL OF ONTARIO LIMITED**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

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# **RISK MANAGEMENT AND CONTROL PRACTICES**

## **Overview**

Credit Union Central of Ontario Limited (“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 (the “Board”). These policies are reviewed regularly, 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"). 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 and also maintains 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 no less than 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, equity 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 risk 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, 2006, and assuming no management action, an immediate 1% increase in interest rates across all repricing dates would lower net interest income by approximately \$547,000 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, 2006, this measurement was approximately \$32,700.

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, 2006, based on a 95% confidence level, the one-day VaR was approximately \$236,000.

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 disaster.

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 audit 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 of Directors. The Board, 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  
February 9, 2007



James M. MacDonald, CA  
Chief Financial Officer

## **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 2006, 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 Committee 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 nine times in 2006, and is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2006.

Respectfully submitted by the Audit Committee.



Sean Jackson  
Chair  
Audit Committee  
February 9, 2007

## 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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Toronto, Canada  
February 9, 2007

**CREDIT UNION CENTRAL OF ONTARIO LIMITED  
CONSOLIDATED BALANCE SHEET**

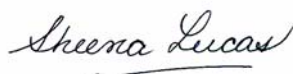
<i>As at December 31 (in thousands)</i>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Cash resources	\$ 246,297	\$ 188,774
Securities (note 4)	1,181,951	1,023,285
Securities purchased under resale agreements (note 5)	136,445	234,788
Loans (note 6)	651,092	499,445
Other assets (note 7)	25,307	30,373
	<b>\$ 2,241,092</b>	<b>\$ 1,976,665</b>

**LIABILITIES AND RETAINED EARNINGS**

Members' deposits (note 8)	\$ 1,615,902	\$ 1,462,829
Other liabilities (note 9)	41,902	33,670
Commercial paper	293,464	-
Obligations related to securities sold under repurchase agreements	-	78,698
Obligations related to securities sold short	163,612	283,512
Membership shares (note 10)	98,494	92,949
	<b>2,213,374</b>	<b>1,951,658</b>
Retained earnings	27,718	25,007
	<b>\$ 2,241,092</b>	<b>\$ 1,976,665</b>

See notes to consolidated financial statements.

Approved by the Board:



Sheena Lucas  
Director



Sean Jackson  
Director

**CREDIT UNION CENTRAL OF ONTARIO LIMITED**  
**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**

<i>For the year ended December 31 (in thousands)</i>	<b>2006</b>	2005
Interest income		
Securities	<b>\$ 52,718</b>	\$ 33,272
Loans (note 6(d))	<b>28,918</b>	17,115
Cash resources	<b>6,199</b>	4,090
	<b>87,835</b>	54,477
Interest expense (note 8(b))	<b>71,764</b>	40,257
Net interest income	<b>16,071</b>	14,220
Provision for credit losses (note 6(c))	<b>1,943</b>	664
	<b>14,128</b>	13,556
Net gain on securities and derivatives	<b>1,678</b>	588
Financial margin	<b>15,806</b>	14,144
Operating revenue		
Membership dues	<b>4,001</b>	4,060
Financial services and other income	<b>17,312</b>	16,271
	<b>21,313</b>	20,331
Operating expenses		
Salaries and benefits	<b>12,778</b>	11,869
Administrative and other	<b>13,393</b>	12,691
Occupancy and amortization	<b>3,854</b>	3,697
	<b>30,025</b>	28,257
Income from ongoing operations	<b>7,094</b>	6,218
Dividend (note 11)	<b>3,822</b>	1,967
Income before income taxes	<b>3,272</b>	4,251
Provision for income taxes (note 13)	<b>561</b>	678
Net income	<b>2,711</b>	3,573
Retained earnings, beginning of year	<b>25,007</b>	21,434
Retained earnings, end of year	<b>\$ 27,718</b>	\$ 25,007

See notes to consolidated financial statements.

**CREDIT UNION CENTRAL OF ONTARIO LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>For the year ended December 31 (in thousands)</i>	<b>2006</b>	2005
<b><i>Cash flows from operating activities:</i></b>		
Net income	\$ 2,711	\$ 3,573
Adjustments for:		
Future income taxes	(74)	356
Net gain on securities and derivatives	(1,678)	(588)
Provision for credit losses, net	1,943	664
Amortization	795	813
Gain on sale of fixed assets	-	(3)
Net changes in accrued interest receivable and payable	9,597	2,056
Other items, net	3,725	(2,303)
<b>Cash flows from operating activities</b>	<b>17,019</b>	<b>4,568</b>
<b><i>Cash flows from financing activities:</i></b>		
Net change in commercial paper	293,464	-
Net change in members' deposits	153,073	185,300
Membership shares issued	5,928	35,128
Membership shares redeemed	(383)	(27,652)
Net change in obligations related to securities sold under repurchase agreements	(78,698)	(20,152)
Net change in obligations related to securities sold short	(119,900)	127,035
<b>Cash flows from financing activities</b>	<b>253,484</b>	<b>299,659</b>
<b><i>Cash flows used in investing activities:</i></b>		
Sale and maturity of securities	33,395,161	40,287,325
Purchase of securities	(33,552,149)	(40,230,197)
Net change in loans	(153,590)	(159,035)
Net change in securities purchased under resale agreements	98,343	(206,828)
Acquisition of fixed assets	(925)	(1,332)
Proceeds on sale of fixed assets	2	6
<b>Cash flows used in investing activities</b>	<b>(213,158)</b>	<b>(310,061)</b>
Effect of exchange rate changes on cash resources	178	(33)
Net increase (decrease) in cash resources	57,523	(5,867)
Cash resources, beginning of year	188,774	194,641
<b>Cash resources, end of year</b>	<b>\$ 246,297</b>	<b>\$ 188,774</b>
Cash resources are comprised of:		
Cash in bank and items in transit (net)	\$ 18,413	\$ 29,516
Deposits maturing or callable within 90 days	227,884	159,258
	<b>\$ 246,297</b>	<b>\$ 188,774</b>
Supplementary cash flow information:		
Interest paid during the year	\$ 62,298	\$ 37,188
Income taxes paid (received) during the year	\$ 1,347	\$ (243)

See notes to consolidated financial statements.

**CREDIT UNION CENTRAL OF ONTARIO LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2006

**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 on securities and derivatives* 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 on securities and derivatives* in the Consolidated Statement of Income and Retained Earnings.

**CREDIT UNION CENTRAL OF ONTARIO LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

**(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.

**CREDIT UNION CENTRAL OF ONTARIO LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

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 reviewed regularly and 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 *Administrative and other* expenses 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.

**CREDIT UNION CENTRAL OF ONTARIO LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended December 31, 2006**

**(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 on securities and derivatives* 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.

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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 on securities and derivatives* in the Consolidated Statement of Income and Retained Earnings.

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**(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 17 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 these 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**

**Recently issued standards not yet implemented**

**(a) Other comprehensive income**

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

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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.

These standards are effective for Central beginning on January 1, 2007.

**(b) 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 Central beginning on 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 Central beginning on January 1, 2007.

**(c) 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 3865*. 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.

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**(d) Impacts of these new accounting standards**

These new financial instrument accounting standards represent a significant change in the direction of fair value accounting and effective January 1, 2007, Central's balance sheet will be similar to the fair values recorded in Note 19. Management also expects more volatility in its reported earnings based on these new standards but they will not change the economic income of Central.

**3. Proposed business combination**

In October 2006, Central entered into discussions with Credit Union Central of British Columbia to combine their respective business services and create a new national business organization to serve credit unions across the country. A joint restructuring committee has been established to guide the merger plans and oversee consultations with credit unions and regulators. The proposed combination is subject to both membership and regulatory approvals.

**4. Securities**

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

<b>2006 (in thousands)</b>	<b>Carrying value</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Securities:				
Government	\$ 33,581	\$ 129	\$ (9)	\$ 33,701
Chartered bank	617,679	434	(738)	617,375
Other debt	516,921	635	(682)	516,874
	<b>\$ 1,168,181</b>	<b>\$ 1,198</b>	<b>\$ (1,429)</b>	<b>\$ 1,167,950</b>
Co-operative investments (note 19c)	13,770			
	<b>\$ 1,181,951</b>			

<b>2005 (in thousands)</b>	<b>Carrying value</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
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
	<b>\$ 1,009,825</b>	<b>\$ 2,472</b>	<b>\$ (2,851)</b>	<b>\$ 1,009,446</b>
Co-operative investments (note 19c)	13,460			
	<b>\$ 1,023,285</b>			

Central has pledged securities in the amount of \$53,000,000 (2005 - \$73,200,000) as security for clearing activity, investment transactions, and external borrowings. In addition, Central has borrowed securities with a market value of \$28,077,000 (2005 - \$34,131,000) and pledged securities with a collateral value of 111% of the borrowed securities (2005 - 124%).

Central held trading securities included in *Government* securities above totaling nil (2005 - \$10,322,000).

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**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, 2006 was \$136,445,000 (2005 - \$234,788,000) with a collateral value of 100% (2005 - 103%).

**6. Loans**

**(a) Loans**

<i>(in thousands)</i>	<b>2006</b>	2005
Members' loans	<b>\$ 496,931</b>	\$ 347,702
Residential mortgage loans	<b>7,427</b>	8,309
Commercial, syndicated and other loans	<b>150,445</b>	146,152
	<b>654,803</b>	502,163
Allowance for credit losses	<b>(3,711)</b>	(2,718)
	<b>\$ 651,092</b>	\$ 499,445

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**

<i>(in thousands)</i>	<b>Gross Impaired</b>	<b>Specific Provision</b>	<b>General Provision</b>	<b>2006 Net Amount</b>	2005 Net Amount
Members' loans	\$ -	\$ -	\$ -	\$ -	\$ -
Residential mortgages loans	-	-	(5)	(5)	(9)
Commercial, syndicated and other loans	<b>6,627</b>	<b>(2,760)</b>	<b>(946)</b>	<b>2,921</b>	906
	<b>\$ 6,627</b>	<b>\$ (2,760)</b>	<b>\$ (951)</b>	<b>\$ 2,916</b>	\$ 897

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 \$151,245,000 (2005 - \$153,042,000).

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**(c) Allowance for credit losses**

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

<i>(in thousands)</i>	<b>Specific Provision</b>	<b>General Provision</b>	<b>2006 Total</b>	<b>2005 Total</b>
Balance, beginning of year	\$ 1,261	\$ 1,457	\$ 2,718	\$ 2,054
Collection of loans previously written-off	-	-	-	-
Loans written-off as uncollectible	(950)	-	(950)	-
Provision for credit losses	2,449	(506)	1,943	664
Balance, end of year	\$ 2,760	\$ 951	\$ 3,711	\$ 2,718

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:

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
Members' loans	\$ 18,911	\$ 8,997
Residential mortgage loans	343	350
Commercial, syndicated and other loans	9,664	7,768
	\$ 28,918	\$ 17,115

**7. Other assets**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
Accrued interest	\$ 10,235	\$ 10,280
Accounts receivable	1,006	3,428
Unrealized gains on derivatives	8,473	11,538
Prepaid and deferred costs	3,533	3,195
Fixed assets, net of accumulated amortization of \$11,661 (2005 - \$11,050)	2,060	1,932
	\$ 25,307	\$ 30,373

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**8. Members' deposits**

**(a) Deposits**

<i>(in thousands)</i>	<b>2006</b>	2005
Current accounts	\$ 164,870	\$ 150,855
Demand deposits	6,566	10,654
Term deposits	102,854	128,352
Bond deposits and discount deposits	522,986	460,331
Non-callable deposits	200	100
Liquidity reserve deposits	818,426	712,537
	<b>\$1,615,902</b>	<b>\$1,462,829</b>

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:

<i>(in thousands)</i>	<b>2006</b>	2005
Current accounts	\$ 2,265	\$ 796
Demand deposits	197	141
Term deposits	4,711	2,560
Bond deposits and discount deposits	19,779	12,423
Non-callable deposits	4	4
Liquidity reserve deposits	28,159	19,250
Commercial paper	6,300	-
External borrowings	10,349	5,083
	<b>\$ 71,764</b>	<b>\$ 40,257</b>

**9. Other liabilities**

<i>(in thousands)</i>	<b>2006</b>	2005
Accrued interest	\$ 22,517	\$ 12,257
Unrealized losses on derivatives	8,063	10,615
Accounts payable and other liabilities	11,322	10,798
	<b>\$ 41,902</b>	<b>\$ 33,670</b>

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## 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% (2005 – 0.60%) of its own shares and deposits. 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 9, 2007, the Board of Directors declared a dividend in respect of 2006 operations of \$4,154,000 (declared in 2006 in respect of 2005 operations - \$3,822,000), calculated at a rate of 4.25% (2005 – 4.2%) on the average share capital outstanding during 2006. The dividend is payable on or before February 28, 2007, to members of record on December 31, 2006 and will be recorded in the Consolidated Statement of Income and Retained Earnings in 2007.

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, 2006. The regulatory capital ratio amounted to 5.63% (2005 – 5.97%) of total assets and the ratio of debt-to-capital was 17.3-to-1 (2005 – 16.9-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:

<i>(in thousands)</i>	<b>2006</b>	2005
Current income taxes:		
Federal	<b>\$ 388</b>	\$ 292
Provincial	<b>247</b>	30
	<b>635</b>	322
Future income taxes:		
Federal	<b>(52)</b>	251
Provincial	<b>(22)</b>	105
	<b>(74)</b>	356
<b>Total</b>	<b>\$ 561</b>	\$ 678

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The components of future income tax balances are as follows:

<i>(in thousands)</i>	2006	2005
Future income tax assets:		
Premises and equipment	\$ 163	\$ 173
Allowance for credit losses	174	267
Corporate minimum tax	88	-
Other	55	(33)
<b>Total</b>	<b>\$ 480</b>	<b>\$ 407</b>

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:

<i>(in thousands)</i>	2006		2005	
Combined federal and provincial income taxes and statutory tax rate	\$ 609	18.6%	\$ 791	18.6%
Increase (decrease) due to:				
Tax exempt income from securities	(30)	(0.9)	(30)	(0.7)
Non-deductible expenses	16	0.5	14	0.4
Corporate minimum tax	-	-	(190)	(4.4)
Other, net	(34)	(1.1)	23	0.5
Large corporations tax	-	-	70	1.6
<b>Provision for income tax and effective tax rate</b>	<b>\$ 561</b>	<b>17.1%</b>	<b>\$ 678</b>	<b>16.0%</b>

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 0.0% of taxable capital (2005 – 0.175%) in excess of \$50,000,000 (2005 - \$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, 2006 (2005 - nil) at wholesale prime rates that is secured by an assignment of Central’s book debts, Central’s deposits in CUCC and Central’s investment in the shares of CUCC (\$5,199,000) at December 31, 2006.

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 2006 (2005 - nil). These lines are established for cash parcel services, money orders, wire transfers, guarantees and letters of credit on behalf of member credit unions.

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**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 2006, the Corporation was charged \$12,000 (2005 - \$12,000) for administrative services provided by Central. In addition, the Corporation has agreed to reimburse Central for costs of \$20,000 (2005 - \$34,000) to support loss prevention programs and an additional \$100,000 (2005 - \$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 \$172,000 (2005 - \$137,000) and other expenses for the Board and committees were \$403,000 for the year (2005 - \$403,000).

**16. Commitments, contingent liabilities and guarantees**

**(a) Loans**

As at December 31, 2006, Central had loaned \$496,931,000 to members against approved credit facilities of \$986,976,000 and had outstanding letters of credit of \$11,320,000 against an authorized limit of \$23,067,000. In addition, Central had advanced \$150,445,000 against approved commercial loan commitments and credit lines of \$181,543,000 and had authorized and issued \$1,440,000 in commercial letters of credit against authorized limit of \$3,027,000.

**(b) Lease commitments**

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

*(in thousands)*

2007	\$ 736
2008	728
2009	749
2010	749
2011	755
Thereafter	2,228
	<u>\$ 5,945</u>

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**(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 \$63,792,000 as at December 31, 2006, and mortgages with a total outstanding balance of \$634,680,000 are being administered in the securitization programs (\$27,640,000 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, 2006, 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:

	2006	2005
<i>(in thousands)</i>		
<b>Type of loan</b>		
<b>Residential mortgage loans purchased</b>		
Total principal amount of loans	\$ 83,327	\$ 61,506
Principal amount of loans 60 days or more past due	\$ -	\$ -
Average balances	\$ 145,291	\$ 82,000
Net credit losses	\$ -	\$ -

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

<i>(in thousands)</i>	2006	2005
Proceeds from new securitizations	\$ 83,328	\$ 137,764
Other securitization revenue	53	37
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.

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

<i>(in thousands)</i>	2006		2005	
	Notional amount	Current replacement cost	Notional amount	Current replacement cost
<b>Asset Liability Management (ALM)</b>				
Interest rate contracts:				
Interest rate swaps	\$ 1,029,181	\$ 715	\$ 1,065,930	\$ 1,775
Equity contracts:				
Options written	129,007	-	144,136	-
Options purchased	129,007	34,923	144,107	34,507
<b>Total ALM</b>	<b>\$ 1,287,195</b>	<b>\$ 35,638</b>	<b>\$ 1,354,173</b>	<b>\$ 36,282</b>
<b>Yield enhancement</b>				
Interest rate contracts:				
Interest rate swaps	\$ 3,749,346	\$ 7,871	\$ 3,139,668	\$ 11,445
Forward rate agreements	900,000	-	-	-
Options written	250,000	-	-	-
Options purchased	50,000	5	250,000	-
Exchange traded futures	857,000	37	80,000	-
Foreign exchange contracts:				
Spot and forward contracts	44,828	560	26,000	93
<b>Total yield enhancement</b>	<b>\$ 5,851,174</b>	<b>\$ 8,473</b>	<b>\$ 3,495,668</b>	<b>\$ 11,538</b>
<b>Total ALM and yield enhancement</b>	<b>\$ 7,138,369</b>	<b>\$ 44,111</b>	<b>\$ 4,849,841</b>	<b>\$ 47,820</b>

*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 unfavourable 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, 2006, and segregates derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position:

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<i>(in thousands)</i>	2006		2005	
	Total favourable position	Total unfavourable position	Total favourable position	Total unfavourable position
<b>ALM</b>				
Interest rate contracts:				
Interest rate swaps	\$ 715	\$ (2,678)	\$ 1,775	\$ (5,557)
Equity contracts:				
Options written	-	(34,923)	-	(34,507)
Options purchased	34,923	-	34,507	-
<b>Total ALM</b>	<b>\$ 35,638</b>	<b>\$ (37,601)</b>	<b>\$ 36,282</b>	<b>\$ (40,064)</b>
<b>Yield enhancement</b>				
Interest rate contracts:				
Interest rate swaps	\$ 7,871	\$ (7,481)	\$ 11,445	\$ (10,465)
Forward rate agreements	-	(21)	-	-
Options written	-	(20)	-	-
Options purchased	5	-	-	-
Exchange traded futures	37	-	-	(15)
Foreign exchange contracts:				
Spot and forward contracts	560	(541)	93	(136)
<b>Total yield enhancement</b>	<b>\$ 8,473</b>	<b>\$ (8,063)</b>	<b>\$ 11,538</b>	<b>\$ (10,616)</b>
<b>Total ALM and yield enhancement</b>	<b>\$ 44,111</b>	<b>\$ (45,664)</b>	<b>\$ 47,820</b>	<b>\$ (50,680)</b>

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:

<i>(in thousands)</i>	2006	2005
<b>ALM</b>		
Federally regulated banks	\$ 1,158,188	\$ 1,210,037
Credit unions	129,007	144,136
<b>Total ALM</b>	<b>\$ 1,287,195</b>	<b>\$ 1,354,173</b>
<b>Yield enhancement</b>		
Federally regulated banks	\$ 3,429,086	\$ 2,432,739
Credit unions	1,550,088	982,929
Others	872,000	80,000
<b>Total yield enhancement</b>	<b>\$ 5,851,174</b>	<b>\$ 3,495,668</b>
<b>Total ALM and yield enhancement</b>	<b>\$ 7,138,369</b>	<b>\$ 4,849,841</b>

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The following table summarizes the notional amounts, by remaining term to maturity, of Central's derivative portfolio at December 31, 2006. 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.

				2006	2005
<i>(in thousands)</i>	Within 1 year	1 to 5 years	Over 5 years	Total	Total
<b>ALM</b>					
Interest rate contracts:					
Interest rate swaps	\$ 648,500	\$ 380,681	\$ -	\$ 1,029,181	\$ 1,065,930
Equity contracts:					
Options written	48,446	80,561	-	129,007	144,136
Options purchased	48,446	80,561	-	129,007	144,107
<b>Total ALM</b>	<b>\$ 745,392</b>	<b>\$ 541,803</b>	<b>\$ -</b>	<b>\$ 1,287,195</b>	<b>\$ 1,354,173</b>
<b>Yield enhancement</b>					
Interest rate contracts:					
Interest rate swaps	\$ 2,060,487	\$ 1,676,931	\$ 11,928	\$ 3,749,346	\$ 3,139,668
Forward rate agreements	900,000	-	-	900,000	-
Options written	250,000	-	-	250,000	-
Options purchased	50,000	-	-	50,000	250,000
Exchange traded futures	857,000	-	-	857,000	80,000
Foreign exchange contracts:					
Spot and forward contracts	44,828	-	-	44,828	26,000
<b>Total yield enhancement</b>	<b>\$ 4,162,315</b>	<b>\$ 1,676,931</b>	<b>\$ 11,928</b>	<b>\$ 5,851,174</b>	<b>\$ 3,495,668</b>
<b>Total ALM and yield enhancement</b>	<b>\$ 4,907,707</b>	<b>\$ 2,218,734</b>	<b>\$ 11,928</b>	<b>\$ 7,138,369</b>	<b>\$ 4,849,841</b>

## 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, 2006, 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 3.6%.

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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.

<i>(in thousands)</i>	Earlier of contractual repricing or maturity periods						Total	Average yield %
	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive		
<b>Assets</b>								
Cash resources	\$ 227,883	\$ -	\$ -	\$ -	\$ -	\$ 18,414	\$ 246,297	4.23
Securities	666,202	1,000	121,415	344,566	34,998	13,770	1,181,951	4.50
Securities purchased under resale agreements	136,445	-	-	-	-	-	136,445	4.11
Loans	550,362	3,328	36,741	60,486	175	-	651,092	4.94
Other assets	-	-	-	-	-	25,307	25,307	-
	<b>\$ 1,580,892</b>	<b>\$ 4,328</b>	<b>\$ 158,156</b>	<b>\$ 405,052</b>	<b>\$ 35,173</b>	<b>\$ 57,491</b>	<b>\$ 2,241,092</b>	<b>4.52</b>
Weighted average yield rate (%)	4.28	6.21	5.18	4.81	4.61			
<b>Liabilities and members' equity</b>								
Members' deposits	\$ 738,335	\$ 186,253	\$ 383,605	\$ 307,564	\$ -	\$ 145	\$ 1,615,902	3.78
Other liabilities	-	-	-	-	-	41,902	41,902	-
Obligations related to securities sold under repurchase agreements	-	-	-	-	-	-	-	-
Obligations related to securities sold short	-	-	-	127,003	36,609	-	163,612	5.18
Commercial paper	293,464	-	-	-	-	-	293,464	4.32
Membership shares	-	-	-	-	-	98,494	98,494	-
Retained earnings	-	-	-	-	-	27,718	27,718	-
	<b>\$ 1,031,799</b>	<b>\$ 186,253</b>	<b>\$ 383,605</b>	<b>\$ 434,567</b>	<b>\$ 36,609</b>	<b>\$ 168,259</b>	<b>\$ 2,241,092</b>	<b>3.67</b>
Weighted average yield rate (%)	3.77	4.11	4.04	4.25	4.91			
On-balance sheet gap	\$ 549,093	\$ (181,925)	\$ (225,449)	\$ (29,515)	\$ (1,436)	\$ (110,768)	\$ -	0.85
<b>Off-balance sheet</b>								
Receiving	4,161,553	210,500	1,026,700	1,059,845	6,928	672,843	7,138,369	4.06
Paying	(4,392,259)	(103,500)	(550,000)	(997,767)	(5,000)	(1,089,843)	(7,138,369)	(4.18)
Off-balance sheet gap	(230,706)	107,000	476,700	62,078	1,928	(417,000)	-	(0.12)
<b>Weighted average yield (%)</b>								
Receiving	4.01	4.51	4.18	4.07	4.04			-
Paying	(4.21)	(4.48)	(4.18)	(4.01)	(4.15)			-
Total interest rate sensitivity gap	\$ 318,387	\$ (74,925)	\$ 251,251	\$ 32,563	\$ 492	\$ (527,768)	\$ -	0.74
<b>Cumulative interest rate sensitivity gap</b>	<b>\$ 318,387</b>	<b>\$ 243,462</b>	<b>\$ 494,713</b>	<b>\$ 527,276</b>	<b>\$ 527,768</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

## 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 for investments with similar terms and credit risks.

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**(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, 2005 (September 30, 2006 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.

<i>(in thousands)</i>	2006	2005		
	Book value	Book value	Ownership share	Equity interest
Credit Union Central of Canada	\$ 5,198	\$ 5,225	19%	\$ 6,024
Credential Financial Inc.:				
Class B common shares	17	17	8%	749
Credential Securities Inc.:				
Debentures	657	657	7%	657
Concentra Financial (formerly Co-operative Trust Company of Canada):				
Member shares	3	3	5%	4
Class A Series 1 shares	4,494	4,494	9%	6,080
Ethical Funds Inc.:				
Shares	-	-	17%	1,991
Subordinated shareholders loan	661	661	17%	661
Mutual Fund startup contributions	437	382	-	382
The Co-operators Group:				
Co-op shares	1	1	14%	133,924
Member participation shares	828	557	5%	557
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
US Central:				
Membership capital shares	11	-	-	-
	<b>\$ 13,770</b>	<b>\$ 13,460</b>		<b>\$ 152,492</b>

**(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 of the loans at market rates for loans with similar terms and credit risks.

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**(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 market interest rates for deposits with similar terms and risks.

The estimated fair value of Central's financial instruments at December 31, 2006, was as follows:

<i>(in thousands)</i>	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
<b>Assets</b>				
Cash resources	\$ 246,297	\$ 246,297	\$ 188,774	\$ 188,975
Securities	1,181,951	1,181,720	1,023,285	1,022,906
Securities purchased under resale agreements	136,445	136,394	234,788	234,741
Loans	651,092	651,701	499,445	503,574
Other assets	23,247	23,247	28,441	28,441
	<b>\$ 2,239,032</b>	<b>\$ 2,239,359</b>	<b>\$ 1,974,733</b>	<b>\$ 1,978,637</b>
<b>Liabilities</b>				
Members' deposits	\$ 1,615,902	\$ 1,614,673	\$ 1,462,829	\$ 1,458,823
Other liabilities	41,902	41,902	33,670	33,670
Commercial paper	293,464	293,426	-	-
Obligations related to securities sold under repurchase agreements	-	-	78,698	78,672
Obligations related to securities sold short	163,612	164,212	283,512	283,404
Membership shares	98,494	98,494	92,949	92,949
	<b>\$ 2,213,374</b>	<b>\$ 2,212,707</b>	<b>\$ 1,951,658</b>	<b>\$ 1,947,518</b>
<b>Off-balance sheet</b>				
ALM interest rate contracts	\$ -	\$ (1,963)	\$ -	\$ (3,782)
	<b>\$ -</b>	<b>\$ (1,963)</b>	<b>\$ -</b>	<b>\$ (3,782)</b>

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.

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**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:

<b>2006 (in thousands)</b>	<b>Financial Services</b>	<b>Trade Services</b>	<b>Shared Services</b>	<b>Total</b>
Financial margin	\$ 15,806	\$ -	\$ -	\$ 15,806
Non-interest revenue	15,665	4,186	1,462	21,313
Non-interest expense	15,813	1,889	12,323	30,025
Net contribution before shared service allocations	15,658	2,297	(10,861)	7,094
Shared service allocations	(9,089)	(1,772)	10,861	-
Income from ongoing operations	\$ 6,569	\$ 525	\$ -	\$ 7,094
Amortization of fixed assets	\$ 175	\$ 23	\$ 597	\$ 795
Segment assets (in millions)	\$ 2,237.3	\$ 0.2	\$ 3.5	\$ 2,241.0

<b>2005 (in thousands)</b>	<b>Financial Services</b>	<b>Trade Services</b>	<b>Shared Services</b>	<b>Total</b>
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

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## 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, 2005, and the date of the next required valuation is December 31, 2008. 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:

<i>(in thousands)</i>	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
<b><i>Reconciliation of accrued defined benefit obligation</i></b>				
Accrued benefit obligation, beginning of year	<b>\$ 8,212</b>	\$ 7,136	<b>\$ 3,135</b>	\$ 2,564
Service cost	<b>140</b>	78	<b>392</b>	121
Interest cost	<b>424</b>	425	<b>307</b>	163
Employees' contributions	<b>58</b>	48	-	-
Benefits paid	<b>(385)</b>	(373)	<b>(190)</b>	(162)
Plan amendments	-	-	-	-
Actuarial losses (gains)	<b>(140)</b>	898	<b>2,415</b>	449
Defined benefit obligation, end of year	<b>\$ 8,309</b>	\$ 8,212	<b>\$ 6,059</b>	\$ 3,135
<b><i>Reconciliation of fair value of plan assets</i></b>				
Fair value of plan assets, beginning of year	<b>\$ 7,079</b>	\$ 6,171	\$ -	\$ -
Actual return on plan assets	<b>301</b>	837	-	-
Employer contributions	<b>399</b>	396	<b>190</b>	162
Employee contributions	<b>58</b>	48	-	-
Benefits paid	<b>(385)</b>	(373)	<b>(190)</b>	(162)
Fair value of plan assets, end of year	<b>\$ 7,452</b>	\$ 7,079	\$ -	\$ -

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

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
Discount rate for current year expense	<b>5.25%</b>	6.00%	<b>5.25%</b>	6.25%
Discount rate for accrued benefit obligations	<b>5.25%</b>	5.25%	<b>5.25%</b>	5.25%
Expected long-term rate of return on plan assets	<b>7.00%</b>	7.50%	-	-
Rate of compensation increase	<b>3.00%</b>	3.00%	<b>3.00%</b>	4.00%
Assumed overall health care cost trend rate	-	-	<b>4.50-8.50%</b>	4.50-9.00%

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<i>(in thousands)</i>	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Funded status</b>				
Defined benefit obligation – end of year	<b>\$ 8,309</b>	\$ 8,212	<b>\$ 6,059</b>	\$ 3,135
Fair value of assets – end of year	<b>7,452</b>	7,079	-	-
Funded status – plan surplus/(deficit)	<b>(857)</b>	(1,133)	<b>(6,059)</b>	(3,135)
Employer contributions during period				
from measurement date to end of year	<b>164</b>	93	-	-
Unamortized transitional obligation	<b>29</b>	32	<b>1,596</b>	1,710
Unamortized net actuarial loss (gain)	<b>2,613</b>	2,657	<b>2,149</b>	(177)
Unamortized past service cost	<b>274</b>	290	-	-
Accrued benefit asset/(liability)	<b>\$ 2,223</b>	\$ 1,939	<b>\$ (2,314)</b>	\$ (1,602)

The following table provides the amounts recognized in the Consolidated Balance Sheet at December 31, 2006:

<i>(in thousands)</i>	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
Prepaid benefit costs recorded in <i>Other assets</i>	<b>\$ 2,223</b>	\$ 1,939	\$ -	\$ -
Accrued benefit liability recorded in <i>Other liabilities</i>	-	-	<b>(2,314)</b>	(1,602)
Net amount recognized	<b>\$ 2,223</b>	\$ 1,939	<b>\$ (2,314)</b>	\$ (1,602)

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

<i>(in thousands)</i>	<b>Defined Contribution</b>		<b>Defined Benefit</b>		<b>Other Benefits</b>	
	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005
Service cost	<b>\$ 350</b>	\$ 289	<b>\$ 140</b>	\$ 78	<b>\$ 392</b>	\$ 121
Interest cost	-	-	<b>424</b>	425	<b>307</b>	163
Actual negative (positive) return on plan assets	-	-	<b>(301)</b>	(837)	-	-
Experience gain (loss)	-	-	<b>(197)</b>	372	-	-
Amortization of net transition obligations	-	-	<b>3</b>	3	<b>114</b>	114
Amortization of past service costs	-	-	<b>16</b>	16	-	-
Amortization of net actuarial (gain)/loss	-	-	<b>101</b>	83	<b>89</b>	(21)
Net benefit plan expense	<b>\$ 350</b>	\$ 289	<b>\$ 186</b>	\$ 140	<b>\$ 902</b>	\$ 377

(a) Continuity of actuarial (gains) losses:

<i>(in thousands)</i>	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
Unrecognized actuarial (gain) loss, beginning of year	<b>\$ 2,657</b>	\$ 2,214	<b>\$ (177)</b>	\$ (647)
(Gain) loss arising from changes in assumptions	<b>(140)</b>	898	<b>2,415</b>	449
(Excess) shortfall of actual return on plan assets	<b>197</b>	(372)	-	-
Amortization of unrecognized actuarial loss	<b>(101)</b>	(83)	<b>(89)</b>	21
Unrecognized actuarial (gain) loss, end of year	<b>\$ 2,613</b>	\$ 2,657	<b>\$ 2,149</b>	\$ (177)

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

	Defined Contribution		Defined Benefit	
	2006	2005	2006	2005
Equities	60.7%	63.0%	58.0%	62.1%
Fixed income investments	29.4	29.4	35.2	31.5
Other	9.9	7.6	6.8	6.4
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

<i>(in thousands)</i>	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Unrecognized cost of plan amendments, beginning of year	\$ 290	\$ 306	\$ -	\$ -
Cost (benefit) of plan amendments during the year	-	-	-	-
Amortization of unrecognized cost of plan amendments	(16)	(16)	-	-
<b>Unrecognized cost (benefit) of plan amendments, end of year</b>	<b>\$ 274</b>	<b>\$ 290</b>	<b>\$ -</b>	<b>\$ -</b>

(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.

<b>Pension Benefits</b> <i>(in thousands)</i>	<b>Benefit Liability</b>	<b>Benefits Expense</b>
Discount rate – 5.25%		
Impact of: 1% increase	\$ (1,123)	\$ (29)
1% decrease	1,452	35
Expected rate of return on plan assets – 7.0%		
Impact of: 1% increase	-	(71)
1% decrease	-	71
Rate of compensation increase – 3.0%		
Impact of: 1% increase	575	65
1% decrease	(496)	(54)
<b>Other Benefits</b> <i>(in thousands)</i>	<b>Benefit Liability</b>	<b>Benefits Expense</b>
Discount Rate – 5.25%		
Assumed overall health care cost trend rate (4.5-8.5%) <sup>1</sup>		
Impact of: 1% increase	\$ 1,307	\$ 193
1% decrease	(1,006)	(144)

<sup>1</sup> Trending down to 4.5% in 2014 and remaining constant thereafter

## CREDIT UNION CENTRAL OF ONTARIO FIVE YEAR FINANCIAL REVIEW

### Components of Total Assets *(in thousands)*

	2002	2003	2004	2005	2006
Cash resources	\$ 124,228	\$ 72,307	\$ 194,641	\$ 188,774	\$ 246,297
Securities	1,113,584	1,215,084	1,079,825	1,023,285	1,181,951
Securities purchased under resale agreements	64,125	185,794	27,960	234,788	136,445
Loans	147,620	236,017	341,075	499,445	651,092
Other assets	24,274	16,622	35,602	30,373	25,307
<b>Total assets</b>	<b>\$ 1,473,831</b>	<b>\$ 1,725,824</b>	<b>\$ 1,679,103</b>	<b>\$ 1,976,665</b>	<b>\$ 2,241,092</b>

In 2006, member loans increased 43% to \$497 million as member credit unions support 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.

### Components of Liabilities & Retained Earnings *(in thousands)*

	2002	2003	2004	2005	2006
Members' deposits	\$ 1,279,161	\$ 1,313,734	\$ 1,277,529	\$ 1,462,829	\$ 1,615,902
External borrowings & other obligations	62,933	280,197	255,327	362,210	457,076
Other liabilities and dividend payable	27,639	26,723	39,340	33,670	41,902
Membership shares	84,874	85,942	85,473	92,949	98,494
Retained earnings	19,224	19,228	21,434	25,007	27,718
<b>Total liabilities &amp; retained earnings</b>	<b>\$ 1,473,831</b>	<b>\$ 1,725,824</b>	<b>\$ 1,679,103</b>	<b>\$ 1,976,665</b>	<b>\$ 2,241,092</b>

System growth also contributed to an increase of \$106 million in liquidity reserve deposits and \$6 million in membership shares. A further \$47 million increase in members' deposits represents growth in other discretionary funds invested with Central. External borrowings increased \$95 million, to \$457 million including \$293 million of short term commercial paper issued to support member loan growth.

**Financial Margin** *(in thousands)*

	2002	2003	2004	2005	2006
<b>Income</b>					
Interest from cash resources & securities	\$ 46,568	\$ 45,573	\$ 32,055	\$ 37,950	\$ 60,595
Interest from loans	8,752	10,831	12,912	17,115	28,918
<b>Expense</b>					
Interest expense	(38,134)	(40,365)	(34,225)	(40,257)	(71,764)
Provision for credit losses	(12)	(125)	(14)	(664)	(1,943)
<b>Financial margin</b>	<b>\$ 17,174</b>	<b>\$ 15,914</b>	<b>\$ 10,728</b>	<b>\$ 14,144</b>	<b>\$ 15,806</b>

Central's financial margin of \$15.8 million reflects the growth in Central's loan portfolio and an increase in member deposits. Specific provisions for credit losses of \$2 million were required on commercial loans bringing the total allowance for credit losses to almost \$4 million.

**Income from Ongoing Operations** *(in thousands)*

	2002	2003	2004	2005	2006
<b>Income</b>					
Financial margin	\$ 17,174	\$ 15,914	\$ 10,728	\$ 14,144	\$ 15,806
Membership dues	3,354	3,328	3,330	4,060	4,001
Financial services and other income	16,331	16,593	16,641	16,271	17,312
<b>Expense</b>					
Salaries & benefits	(12,257)	(12,701)	(10,882)	(11,869)	(12,778)
Administrative & other	(11,862)	(12,454)	(12,630)	(12,691)	(13,393)
Occupancy & amortization	(4,510)	(4,624)	(4,649)	(3,697)	(3,854)
<b>Income from ongoing operations</b>	<b>\$ 8,230</b>	<b>\$ 6,056</b>	<b>\$ 2,538</b>	<b>\$ 6,218</b>	<b>\$ 7,094</b>

Income from ongoing operations of \$7 million represents a 6.7% return on invested capital and supports the payment of a 4.25% dividend in 2007.