

Credit Union Central of Canada

Consolidated Financial Statements



December 31, 2006



Financial Statements

Management's Responsibility for Financial Information

The management of Credit Union Central of Canada ("Canadian Central") is responsible for the integrity, objectivity and consistency of the financial information presented in this annual report. This responsibility includes selecting appropriate accounting policies which are in accordance with Canadian generally accepted accounting principles and ensuring that the financial information is based on informed judgements and estimates. The Board of Directors has approved the consolidated financial statements for issuance to the members.

Management maintains the necessary system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records maintained.

The Board of Directors oversees management's responsibilities for financial statements through the Audit and Conduct Review Committees, which are composed solely of directors who are not officers or employees of Canadian Central.

The Audit Committee conducts a detailed review of the consolidated financial statements with management and the independent auditors before recommending their approval to the Board of Directors.

Annually, the Superintendent of Financial Institutions Canada reviews the activities of Canadian Central, to the extent deemed necessary, to satisfy itself that provisions of the Cooperative Credit Associations Act (Canada), having reference to the safety of the interests of depositors and members of Canadian Central, are being duly observed and that Canadian Central is in sound financial condition.

Deloitte & Touche LLP, the independent auditors appointed by the members, have examined our consolidated financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.



David Philips
President & Chief Executive Officer



Gary Lowes
Vice President & Chief Financial Officer

Auditors' Report to the Members of Credit Union Central of Canada

We have audited the consolidated balance sheet of Credit Union Central of Canada ("Canadian Central") as at December 31, 2006 and the consolidated statements of earnings and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of Canadian 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 Canadian 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.



Chartered Accountants
Toronto, Canada
January 31, 2007

Consolidated Balance Sheet

As at December 31, 2006 (In thousands of dollars)

	2006	2005
ASSETS		
Cash	\$ 217	\$ 3,768
Short-term investments	17,242	257,959
Deposits with Bank of Canada	1,473	10,643
Cash in transit from financial institutions (Note 3)	202,861	98,565
Securities (Note 4)	12,956	8,973
Loans to members (Note 5)	22,946	69,399
Other loans and leases (Note 6)	82,256	91,965
Unrealized gain on derivative contracts (Note 15)	–	21
Income taxes recoverable	949	–
Future income taxes (Note 11)	2,310	1,641
Capital assets (Note 7)	903	1,089
Accrued interest and other assets	1,329	1,443
	\$ 345,442	\$ 545,466
LIABILITIES		
Cash in transit to financial institutions (Note 3)	\$ 133,155	\$ 336,121
Deposits by members	93,036	96,781
Notes payable to members (Note 8)	78,815	71,615
Income taxes payable	88	2,163
Future income taxes (Note 11)	40	40
Dividends payable (Note 9)	1,664	1,664
Accrued interest and other liabilities	7,203	5,118
	314,001	513,502
MEMBERS' EQUITY		
Share capital (Note 9)	27,726	27,725
Retained earnings	3,715	4,239
	31,441	31,964
	\$ 345,442	\$ 545,466

Approved by the Board:



Michael Tarr
Director



Henry Jansen
Director

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 2006 (In thousands of dollars)

	2006	2005
REVENUE		
Income from securities and short-term investments	\$ 1,076	\$ 824
Income from loans to members	1,130	1,322
Income from other loans and leases	10,071	9,880
Other revenue	378	583
	12,655	12,609
EXPENSES		
Interest	5,482	4,199
Gains on derivative financial instruments (Note 15)	(7)	(24)
Provision for impaired loans	1,908	1,136
Salaries, benefits and variable compensation	6,200	7,772
Technology, administration and other	5,630	6,002
Amortization of capital assets	333	363
Cost-sharing recoveries (Note 17)	(7,569)	(9,714)
	11,977	9,734
EARNINGS BEFORE SPECIAL STRATEGY COMMITTEE, REBATE TO MEMBERS AND INSURANCE RECOVERY	678	2,875
SPECIAL STRATEGY COMMITTEE		
Special strategy committee costs (Note 10)	740	160
Recoveries of special strategy committee costs	(740)	(160)
EARNINGS BEFORE REBATE TO MEMBERS AND INSURANCE RECOVERY	678	2,875
REBATE TO MEMBERS		
Cost sharing assessments (Note 17)	157	583
INSURANCE RECOVERY (Note 19)	(224)	(3,526)
EARNINGS BEFORE INCOME TAXES	745	5,818
INCOME TAXES (Note 11)		
Current	875	2,633
Future (recovery)	(669)	(492)
	206	2,141
NET EARNINGS	539	3,677
RETAINED EARNINGS, BEGINNING OF YEAR	4,239	1,625
DIVIDENDS , net of related income tax savings of \$601 (2005 – \$601)	(1,063)	(1,063)
RETAINED EARNINGS, END OF YEAR	\$ 3,715	\$ 4,239

Consolidated Statement of Cash Flows

Year ended December 31, 2006 (In thousands of dollars)

	2006	2005
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	\$ 539	\$ 3,677
Items not affecting cash		
Amortization of capital assets	333	363
Write-off of leasehold improvements	17	17
Future income taxes	(669)	(492)
Provision for impaired loans	1,908	1,136
Net change in fair value of swaps	21	(267)
Amortization of deferred asset	14	107
Gain on sale of corporate debentures	–	(60)
	2,163	4,481
Changes in non-cash operating components		
Accrued interest and other assets	100	(485)
Income taxes recoverable/payable	(3,024)	2,923
Accrued interest and other liabilities	2,085	675
	1,324	7,594
FINANCING		
Issuance (Redemption) of share capital	1	(8)
Dividends paid	(1,664)	–
Income tax savings resulting from dividends declared	601	601
	(1,062)	593
INVESTING		
Securities	(3,966)	(2,465)
Amortization of premiums on corporate debentures	(17)	(71)
Proceeds on sale of corporate debentures	–	5,589
Loans to members	40	(100)
Notes payable to members	7,200	–
Other loans and leases	7,801	(12,841)
Purchase of capital assets	(164)	(498)
	10,894	(10,386)
NET INFLOW (OUTFLOW) OF CASH AND CASH EQUIVALENTS	11,156	(2,199)
NET CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,241	9,440
NET CASH AND CASH EQUIVALENTS, END OF YEAR (Note 18)	\$ 18,397	\$ 7,241
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 6,811	\$ 5,474
Income taxes paid	\$ 3,298	\$ 90

Notes to the Consolidated Financial Statements

December 31, 2006

1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Subsection 292(4) of the Cooperative Credit Associations Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below.

Basis of Presentation

The consolidated financial statements include the accounts of Credit Union Central of Canada ("Canadian Central") and those of its investees which it controls and for which it has the right and ability to obtain future economic benefits and for which it is exposed to the related risks of ownership.

Canadian Cooperative Agricultural Financial Services and Canadian Cooperative Leasing Services, both members of Canadian Central, are deemed to be subsidiaries, notwithstanding the nominal shareholdings which Canadian Central has in these members, by virtue of the fact that Canadian Central controls them and has the right and ability to obtain future economic benefits and is exposed to the related risks of both organizations. The nominal shareholdings which these two members have in Canadian Central have been eliminated from reported share capital, and other intercompany transactions have been eliminated, as well.

CUIC Inc., operating as *CUSOURCE*® Credit Union Knowledge Network, is wholly owned by Canadian Central, but is carried at cost in these financial statements due to the Governance Agreement, which provides that it be operated as a not-for-profit organization and that Canadian Central have no control or risks or rewards of ownership.

Canadian Central also holds 100% of the shares of Cancred Lands Limited, an inactive company.

Accounting for Securities

Corporate debentures are carried at amortized cost whereby purchase discounts and premiums are amortized to operations over the term to maturity. Co-operative investments are carried at cost. An allowance for losses is provided when there is considered to be a decline in market value, which is other than temporary.

Gains and losses on disposals of securities are included in income from securities and short-term investments.

Loans Receivable

The carrying value of loans receivable includes principal and related finance costs. The terms of the loans generally extend up to five years. Finance charges are taken into income on a constant yield basis over the terms of the loans. The investment in leases for purposes of income recognition is composed of net minimum lease payments less unearned finance income. Finance income related to the investment in leases is recognized over the term of the lease according to a formula providing a constant rate of return on investment. The carrying value of credit card loans includes principal and related finance costs. Finance charges are calculated on outstanding balances and taken into income on a monthly basis. Foreclosed assets are held for sale and valued at the outstanding balance of the loan at the date of foreclosure adjusted for costs incurred subsequent to foreclosure or repossession and the estimated net realizable value of the property.

Direct Financing Leases

A subsidiary of Canadian Central has legal title to certain assets which are leased under terms which transfer substantially all of the benefits and risks of ownership to the lessees. The carrying value of direct financing leases represents the aggregate cost of the related assets to Canadian Central, less principal payments received. If a decline in value is considered to be other than temporary, a provision for loss is recorded. Income earned on such leases is calculated by reference to the principal balance outstanding and the applicable interest rates specified in the lease agreements.

Derivative Financial Instruments

A subsidiary of Canadian Central periodically enters into interest rate swap and interest rate cap agreements to reduce the exposure to movements in interest rates. The subsidiary does not enter into derivative financial instruments for trading or speculative purposes.

The subsidiary enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its notes payable to members. Interest rate swaps are accounted for using the accrual basis. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

Effective January 1, 2004, the subsidiary adopted AcG-13 Hedging Relationships, and, as a result, the interest rate swaps no longer qualified for hedge accounting at that point in time. Subsequent to January 1, 2004, realized and unrealized gains or losses on derivative financial instruments are recorded in income in the period that a change in the underlying fair value of the instruments occurs.

Capital Assets

Capital assets are recorded at cost. Assets costing less than \$2,000 each are expensed in the period acquired. Amortization is calculated using the straight-line method at the following rates:

Computer equipment	3 years
Computer software and licenses	3 years
Leasehold improvements	9 years (lease term)
Furniture and equipment	5 years

Income Taxes

The asset and liability method of income tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to be reversed.

Use of Estimates

The preparation of Canadian Central's financial statements, in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

2. Future Accounting Changes

In 2005, the Canadian Institute of Chartered Accountants issued the following new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges. These new standards became effective for Canadian Central on January 1, 2007.

Comprehensive Income

Section 1530 establishes standards for the reporting and display of Comprehensive income which is comprised of Net Income and Other Comprehensive Income and represents changes in Shareholders' Equity during a period arising from transactions and other events and circumstances with non-owner sources. Other Comprehensive Income "OCI" includes unrealized gains and losses on financial assets classified as available for sale, as well as certain exchange gains and losses on the translation of assets and liabilities, and other amounts deferred for later recognition in the income statement due to certain hedge relationships. This section will require the presentation of a statement of Comprehensive Income and its components with comparable importance to the income statement and balance sheet.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. All financial instruments, including derivatives, should be measured at fair value on initial recognition except for certain related party transactions, and recognized on the balance sheet. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Financial assets and financial 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 using the effective interest method of amortization. Available-for-sale financial assets will be measured at fair value with unrealized gains and losses being recognized in Other Comprehensive Income. Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading as set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliable fair values and are subject to additional conditions and disclosure requirements as set out by the Office of the Superintendent of Financial Institutions Canada.

Notes to the Consolidated Financial Statements (cont'd)

Hedges

Section 3865 updates AcG-13 Hedging Relationships to incorporate on Balance Sheet hedge accounting, but retains previous documentation and effectiveness requirements. It also establishes the standards for when and how hedge accounting may be applied. As of January 1, 2007 Canadian Central was not party to any hedging relationships.

Impact of Adoption for Canadian Central

An evaluation has been made of the assets and liabilities of Canadian Central as of January 1, 2007. The vast majority of financial assets have been classified as Loans and Receivables and financial liabilities classified as Other Financial Liabilities. These instruments will, as a result, be measured at amortized cost. However, it is the intention of Canadian Central to classify its bond and money market securities as held-for-trading which are measured at fair value with gains and losses measured through Net Earnings. All financial instruments will be classified on the date of adoption, January 1, 2007. Existing financial instruments will be "re-measured" on that date with the offsetting adjustment to opening Retained Earnings (held-for-trading) or Other Comprehensive Income (available-for-sale). The transition amount that will be recorded in opening Retained Earnings is not expected to be material to Canadian Central's financial position.

3. Cash in Transit

Canadian Central acts as the Group Clearer for cash in transit that arises from the clearing settlement system for a group of its member provincial credit union centrals (see Note 14).

The balance sheet of Canadian Central has separately disclosed Cash in transit from financial institutions as an asset and Cash in transit to other financial institutions as a liability.

Canadian Central has a line of credit facility with the Bank of Canada in respect of its function as direct clearer on behalf of five Provincial Centrals in the Canadian Payments Association. This line of credit is limited by, and secured with government-guaranteed securities lodged by the Provincial Centrals.

4. Securities

(In thousands of dollars)

	2006		2005	
	Stated Value	Market Value	Stated Value	Market Value
Corporate debentures and notes	\$ 8,605	\$ 8,655	\$ 4,622	\$ 4,660
Co-operative investments	4,351	4,351	4,351	4,351
	\$ 12,956	\$ 13,006	\$ 8,973	\$ 9,011

Co-operative investments have indefinite terms, and corporate debentures mature within four years.

5. Loans to members

(In thousands of dollars)

	2006	2005
Provincial Centrals	\$ 22,780	\$ 69,193
CUIC Inc.	156	196
Other members	10	10
	\$ 22,946	\$ 69,399

All loans to Provincial Centrals are due within one month. At December 31, 2006, Canadian Central has granted lines of credit to Provincial Centrals for operating purposes in the aggregate amount of \$403,500,000 (2005 – \$403,500,000), including amounts loaned. Canadian Central has also granted a line of credit to CUIC Inc. for \$250,000 (2005 – \$250,000).

Pursuant to the terms of the National Liquidity Fund Agreement, Canadian Central has immediate access to the liquidity pool assets, segregated and held by Provincial Centrals, to enable it to fulfill its current responsibilities as a direct clearer of the Bank of Canada and a member of the Canadian Payments Association.

6. Other Loans and Leases

a) Composition

(In thousands of dollars)

	2006	2005
Loans Receivable		
Retail customer loans	\$ 55,290	\$ 64,713
Industrial loans	1,598	2,960
Credit card loans	27,434	26,006
Leases	170	213
	84,492	93,892
Allowance for impaired loans	2,236	1,927
	\$ 82,256	\$ 91,965

Retail customer, wholesale and industrial loans are secured by specific equipment.

The investment in direct financing leases is composed of net minimum lease payments less unearned finance income which is recognized over the term of the lease according to a formula providing a constant rate of return on investment. Impaired loans include foreclosed assets held for sale with a gross carrying value of \$2,232,138 (2005 – \$2,227,400) and related allowance of \$780,832 (2005 – \$534,340).

b) Allowance for Impaired Loans and Leases

The allowance for impaired loans and leases is comprised of the following:

(In thousands of dollars)

	2006				2005
	Total Impaired Loans	Specific Allowances	Non-Specific Allowances	Total Allowances	Total Allowances
Retail customer	\$ 3,223	\$ 989	\$ 522	\$ 1,511	\$ 1,186
Industrial	77	76	14	90	98
Credit card	–	–	635	635	643
	\$ 3,300	\$ 1,065	\$ 1,171	\$ 2,236	\$ 1,927

The change in the allowance for impaired loans is as follows:

(In thousands of dollars)

	2006			2005
	Retail and Industrial Loans	Credit Card	Total	Total
Allowance, beginning of year	\$ 1,284	\$ 643	\$ 1,927	\$ 1,260
Provision	873	1,035	1,908	1,136
Write-offs during the year	(566)	(1,316)	(1,882)	(760)
Recoveries	10	273	283	291
ALLOWANCE, END OF YEAR	\$ 1,601	\$ 635	\$ 2,236	\$ 1,927

Notes to the Consolidated Financial Statements (cont'd)

6. Other Loans and Leases (cont'd)

c) Terms of Loans Receivable

Retail, wholesale and industrial loans are at fixed rates and have an average yield as follows:

(In thousands of dollars)

	2006			2005
	Retail Customer	Industrial	Total	Total
Less than 7.50%	\$ 21,108	\$ 20	\$ 21,128	\$ 30,662
7.51% to 10.00%	33,591	488	34,079	33,619
10.01% to 12.5%	454	1,003	1,457	2,840
More than 12.5%	137	87	224	552
	\$ 55,290	\$ 1,598	\$ 56,888	\$ 67,673

These loans and leases have maturities as follows:

(In thousands of dollars)

	2006			
	Average Interest Rate	Retail Customer	Industrial	Total
1 to 12 months	8.51%	\$ 5,394	\$ 528	\$ 5,922
13 to 24 months	8.43%	9,042	498	9,540
25 to 36 months	7.92%	16,868	200	17,068
37 to 48 months	7.89%	13,354	253	13,607
49 to 60 months	8.69%	7,541	119	7,660
61 to 72 months	6.84%	2,912	–	2,912
73 to 84 months	8.00%	179	–	179
		\$ 55,290	\$ 1,598	\$ 56,888

d) Concentration

Virtually all of the loans and leases receivable are extended to agricultural producers. Approximately 85% (2005 – 83%) of these loans and leases are to borrowers in the three prairie provinces of Canada.

7. Capital Assets

(In thousands of dollars)

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 1,219	\$ 1,032	\$ 187	\$ 286
Computer software and licenses	41	–	41	–
Furniture and equipment	1,013	762	251	303
Leasehold improvements	665	241	424	500
	\$ 2,938	\$ 2,035	\$ 903	\$ 1,089

8. Notes Payable to Members

Certain Provincial Centrals provide a substantial portion of the financing for Canadian Cooperative Agricultural Financial Services, a member, under a Participation Agreement co-ordinated by Canadian Central. The notes payable, which are issued pursuant to the terms of this Agreement, amounted to \$78,815,000 at December 31, 2006 (2005 – \$71,615,000) and they are secured by the assets of Canadian Cooperative Agricultural Financial Services. All amounts are due within one year.

(In thousands of dollars)

	Amount	Interest Rate
Series I debentures	\$ 66,600	3.65% – 5.34%
Series II debentures	3,015	15%
Credit Union Central of Ontario Demand Loan	9,200	5.33% – 5.45%
	\$ 78,815	

9. Share Capital

(In thousands of dollars except share amounts)

	2006		2005	
	Shares	Amount	Shares	Amount
Shares without par value				
Authorized	2,500,000	N/A	2,500,000	N/A
Issued	277,266	\$ 27,726	277,256	\$ 27,725

On approval of the Board of Directors, shares are redeemable at the lower of fair market value and the amount paid thereon pursuant to provisions in Canadian Central's by-laws. As required by the Cooperative Credit Associations Act, such redemptions are limited in any fiscal year to 1% of the issued shares outstanding at the beginning of the fiscal year. Any redemption in share capital exceeding this amount requires regulatory approval.

Dividends are payable at the discretion of the Board of Directors. The Board of Directors approved a dividend payment of 6% to shareholders of record on November 24, 2006 in the amount of \$1,663,662 payable on February 16, 2007 (2005 – \$1,663,602).

During 2006, no shares were redeemed (2005 – 80 shares). Ten shares were issued in 2006 (2005 – nil shares) for \$1,000 (2005 – \$nil).

Dividends payable in respect of share capital are deductible in the determination of taxable income and the resulting tax savings of \$600,915 (2005 – \$600,893) are netted from the dividends in the consolidated statement of earnings and retained earnings.

10. Special Strategy Committee

The Special Strategy Committee was formed by the Board of Directors for the purpose of planning the credit union system's response to both the opportunities and challenges that are presented by potential bank mergers. Costs incurred in 2006 for this project amounted to \$739,806 (2005 – \$160,097) and were assessed to the Provincial Centrals under a cost sharing formula.

11. Income Taxes

The total income tax provision in the consolidated statement of earnings and retained earnings is at a rate less than the combined federal and provincial statutory income tax rates as follows:

(In thousands of dollars)

	2006		2005	
	\$	%	\$	%
Income taxes at combined statutory rate	\$ 264	35.5	\$ 2,075	35.7
Permanent differences	27	3.6	28	0.5
Deductible temporary differences for which no benefit has been recognized	(66)	(8.8)	38	0.6
Other	(19)	(2.6)	–	–
	\$ 206	27.7	\$ 2,141	36.8

Notes to the Consolidated Financial Statements (cont'd)

11. Income Taxes (cont'd)

The effects of temporary differences, which give rise to the future income tax asset and future income tax liability, are as follows:

(In thousands of dollars)

	2006	2005
FUTURE INCOME TAX ASSET		
Leasing activity – income recognition	\$ 2,310	\$ 1,641
FUTURE INCOME TAX LIABILITY		
Capital gain – share exchange	\$ 40	\$ 40

12. Interest Rate Sensitivity

Canadian Central has established policies and related reporting processes to manage its exposure to fluctuating interest rates (interest rate risk) and exposure to financial loss resulting from the failure of a party to honour its financial or contractual obligations (credit risk). A source of Canadian Central's income for 2006 was financial margin, which is the difference between interest earned on investments and loans and interest paid on deposits, borrowings and capital.

13. Commitment and Guarantees

Canadian Central is a Group Clearer under the rules of the Canadian Payments Association (the "CPA"). In addition to Canadian Central, the members of the Canadian Central Group are Credit Union Central of British Columbia, Credit Union Central of Alberta, Credit Union Central of Saskatchewan, Credit Union Central of Manitoba, and Credit Union Central of Ontario (the "Centrals"). Under the rules of the CPA, Canadian Central:

- (a) guarantees payment of payment items drawn on or payable by the Centrals and their member credit unions; and
- (b) must give the CPA at least thirty (30) days prior notice before it can make a change in the composition of the Canadian Central Group and cease acting as group clearer for a Central.

Canadian Central is committed to this contingent guarantee under the Canadian Central Group Clearing Agreement (the "Group Clearing Agreement"). Pursuant to the Group Clearing Agreement, the Centrals, severally, indemnify Canadian Central for all payment items drawn on or payable by the Central or its member credit unions and, in the event of the failure of a Central to honour its guarantee, the remaining Centrals, jointly and severally, indemnify Canadian Central for all payment items drawn on or payable by any Central or its member credit unions.

Canadian Central and a subsidiary are committed to annual rental payments for leased premises as noted below.

2007	\$ 656,439
2008	\$ 668,208
2009	\$ 680,105
2010	\$ 692,131
2011	\$ 702,187
2012	\$ 643,191
	\$ 4,041,261

14. Clearing System Activity

Canadian Central performs several important roles within the credit union clearing system. These include activities relating to Group Clearing Agreements with Members. The following summarized balance sheet isolates the financial impact of these activities. All balances represent items with a settlement term of less than 90 days.

(In thousands of dollars)

	2006		
	Balance Sheet	Clearing System Balances	Non-Clearing Balance Sheet
ASSETS			
Cash	\$ 217	\$ –	\$ 217
Short-term investments	17,242	2,330	14,912
Deposits with Bank of Canada	1,473	1,473	–
Cash in transit from financial institutions	202,861	202,861	–
Securities	12,956	–	12,956
Loans	105,202	22,780	82,422
Other	5,491	26	5,465
TOTAL ASSETS	\$ 345,442	\$ 229,470	\$ 115,972
LIABILITIES & MEMBERS' EQUITY			
Cash in transit to financial institutions	\$ 133,155	\$ 133,155	\$ –
Deposits by members	93,036	93,021	15
Other	87,810	3,294	84,516
TOTAL LIABILITIES	314,001	229,470	84,531
MEMBERS' EQUITY	31,441	–	31,441
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 345,442	\$ 229,470	\$115,972

(In thousands of dollars)

	2005		
	Balance Sheet	Clearing System Balances	Non-Clearing Balance Sheet
ASSETS			
Cash	\$ 3,768	\$ 3,549	\$ 219
Short-term investments	257,959	244,000	13,959
Deposits with Bank of Canada	10,643	10,643	–
Cash in transit from financial institutions	98,565	98,565	–
Securities	8,973	–	8,973
Loans	161,364	69,192	92,172
Other	4,194	–	4,194
TOTAL ASSETS	\$ 545,466	\$ 425,949	\$119,517
LIABILITIES & MEMBERS' EQUITY			
Cash in transit to financial institutions	\$ 336,121	\$ 336,121	\$ –
Deposits by members	96,781	89,766	7,015
Other	80,600	62	80,538
TOTAL LIABILITIES	513,502	425,949	87,553
MEMBERS' EQUITY	31,964	–	31,964
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 545,466	\$ 425,949	\$119,517

Notes to the Consolidated Financial Statements (cont'd)

15. Financial Instruments

Fair Value of Financial Instruments

The fair value of short-term investments, deposits with Bank of Canada, loans to members, accrued interest and other assets, deposits by members, notes payable by members, and accrued interest and other liabilities are assumed to approximate the carrying values because of their short terms to maturity. Market values of securities are disclosed in Note 4.

Management has estimated the fair value of loans receivable referred to in Note 6 by discounting the expected future cash flows at estimated current market rates for instruments with similar risks. Management estimates that the fair value of these loans receivable at the balance sheet date was \$84 million (2005 – \$93 million). The comparable carrying value of these assets, calculated by deducting unearned finance income from the loans receivable balance is \$82 million (2005 – \$92 million).

The difference between the estimated fair value and carrying value of financial instruments arises due to the fluctuations in interest rates between the date the instrument was originally recognized in the financial statements and the year end date. As Canadian Central and its subsidiaries normally hold all loans receivable to maturity, carrying values have not been adjusted to reflect the differences.

Interest Rate Swaps

A subsidiary of Canadian Central has utilized interest rate swaps to effectively change floating rate payments into fixed rate payments on notes payable to members. Under the terms of the swaps, the subsidiary has contracted with a counterparty to pay interest at a fixed rate on the notional amounts and to receive interest at floating rates on the notional amounts. As at December 31, 2006, the subsidiary had interest rate swaps outstanding of \$nil (2005 – \$9 million). There were two swaps terminated during the year.

Effective January 1, 2004, Canadian Central implemented AcG-13 Hedging Relationships. As a result, the interest rate swaps held no longer qualified for hedge accounting resulting in the recording of an unrealized loss and corresponding deferred asset of \$309,247 on January 1, 2004, which was the fair value of the swaps at that time. This deferred asset was amortized into income on a straight-line basis over the remaining terms to maturity of the underlying interest rate swaps. For the year ended December 31, 2006, \$14,380 was amortized into income (2005 – \$107,324), included in interest expense.

The (gains) losses on derivative financial instruments recorded in income are broken down as follows:

	2006	2005
Fair value of swaps, beginning of year	\$ 21,357	\$ (246,359)
Fair value of swaps, end of year	–	21,357
Net change in fair value of swaps	21,357	(267,716)
Interest paid to counterparty during the year	(28,527)	244,130
UNREALIZED (GAINS) LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS	\$ (7,170)	\$ (23,586)

16. Borrowing Limit and Lines of Credit

Aggregate borrowings, deposits accepted and debt guarantees granted may not exceed 20 times total consolidated members' equity. At December 31, 2006 such obligations outstanding were approximately 9.7 (2005 – 15.8) times total consolidated members' equity.

Canadian Central has available lines of credit for borrowing in the amount of \$1,000,000.

17. Related Party Transactions

Canadian Central, as a financial co-operative, conducts essentially all of its transactions, except security transactions and external borrowings, with its members and, under agreement, provides administrative and financial services and support to Canadian Cooperative Agricultural Financial Services and Canadian Cooperative Leasing Services, both members and subsidiaries of Canadian Central. Canadian Central also provided services to and received services from CUIC Inc., a wholly owned subsidiary. In addition, Canadian Central undertakes various cost-sharing programs, which are member-funded based on accepted formulas, for the benefit of its members.

The Board of Directors approved a rebate of cost sharing assessments of \$157,459 (2005 – \$583,449) which will be paid to participants based on the assessment support formula for specific products and services. The payment of the rebate is a result of income and cost sharing recoveries exceeding the costs of services provided to members.

18. Net Cash and Cash Equivalents

Transactions in the following accounts with an initial term to maturity of 90 days or less are deemed to be cash equivalents.

(In thousands of dollars)

	2006	2005
Cash	\$ 217	\$ 3,768
Short-term investments	17,242	257,959
Deposits with Bank of Canada	1,473	10,643
Cash in transit from financial institutions	202,861	98,565
Loans to members	22,780	69,193
Cash in transit to financial institutions	(133,155)	(336,121)
Deposits by members	(93,021)	(96,766)
	\$ 18,397	\$ 7,241

19. Insurance Recovery

During 2006, Canadian Cooperative Agricultural Financial Services received \$223,957 (2005 – \$3,525,790) related to an insurance claim to recover a portion of losses incurred in 2003 relating to defaulted loans.

20. Pension Plan

Canadian Central and its employees contribute to a defined contribution pension plan. The pension expense for the year ended December 31, 2006 was \$244,223 (2005 – \$255,364).



Shareholder Members

As of December 31, 2006

Class A: Credit Union Central and Federation Class

Credit Union Central of British Columbia
Credit Union Central Alberta Limited
Credit Union Central of Manitoba
Credit Union Central of New Brunswick
Credit Union Central of Newfoundland and Labrador
Credit Union Central of Nova Scotia
Credit Union Central of Ontario
Credit Union Central of Prince Edward Island
Credit Union Central of Saskatchewan
L'Alliance des caisses populaires de l'Ontario limitée

Class B: Trade Associations

Central Alliance for Newfoundland and Labrador
Credit Unions Limited

Class C: Corporation Class

Canadian Alternative Investment Co-op
Canadian Co-operative Association
Canadian Co-operative Agricultural Financial Services
Canadian Cooperative Leasing Services

COLAC (Confederación Latinoamericana
de Cooperativas de Ahorro Y Crédito)
Concentra Financial Services Association
Co-op Atlantic
Cooperative EFT Development Association (CEDA)
Co-operative Housing Federation of Canada
Co-operators General Insurance Company
Co-operators Life Insurance Company
CUMIS General Insurance Company
CUMIS Life Insurance Company
CUNA Mutual Insurance Society
Farmers Co-operative Dairy Limited
Fogo Island Co-operative Society
Gay Lea Foods Co-operative Limited
National Association of Canadian Credit Unions (NACCU)
North Carolina Credit Union League
Scotian Gold Co-operative Limited
United Farmers of Alberta Co-operative Limited
U. S. Central Credit Union
Western Co-operative Fertilizers Limited



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