# CREDIT UNION CENTRAL *of* MANITOBA

ANNUAL REPORT

2005

# Manitoba's Credit Unions

## District 1

Steinbach credit union [2 branches]

## District 2

Assiniboine credit union [10]

## District 3

Cambrian credit union [11]

## District 4

Alliance credit union [2]
Belgian credit union [1]
Buffalo credit union [2]
Civic credit union [4]
Entegra credit union [2]
Me-Dian credit union [1]
North Winnipeg credit union [1]
Transcona credit union [2]
Winnipeg Police credit union [1]

## District 5

Astra credit union [6]
Carpathia credit union [3]
Crosstown credit union [4]
Vantis credit union [8]

## District 6

Arborg credit union [2]
Dauphin Plains credit union [3]
Eriksdale credit union [3]
Ethelbert credit union [2]
Flin Flon credit union [1]
Gimli credit union [2]
Grandview credit union [1]
Riverton credit union [1]
Roblin credit union [2]
Rorketon & District credit union [1]
Ste. Rose credit union [1]
Swan Valley credit union [2]

## District 7

Amaranth credit union [1]
Austin credit union [4]
Beautiful Plains credit union [2]
Crocus credit union [2]
Cypress River credit union [2]
Erickson credit union [1]
Hartney credit union [1]
Minnedosa credit union [1]
Portage credit union [3]
Sandy Lake credit union [1]
Strathclair credit union [4]
Tiger Hills credit union [2]
Turtle Mountain credit union [3]
Virden credit union [4]

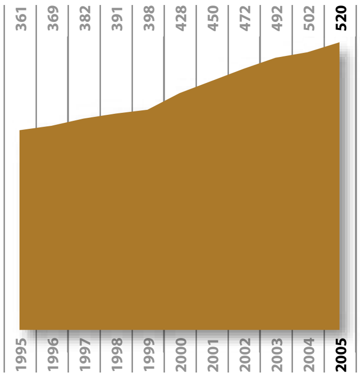
## District 8

Agassiz credit union [5]
Altona credit union [2]
Community credit union [3]
Dufferin credit union [1]
La Salle credit union [1]
Lowe Farm credit union [1]
Niverville credit union [2]
Oak Bank credit union [2]
Rosenort credit union [1]
Sanford credit union [2]
Starbuck credit union [2]

## District 9

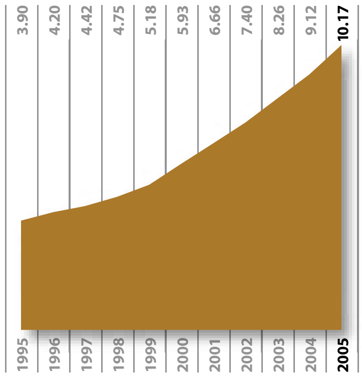
Heartland credit union [3]
South Interlake credit union [9]
Vanguard credit union [13]
Westoba credit union [18]

**Memberships** (thousands)

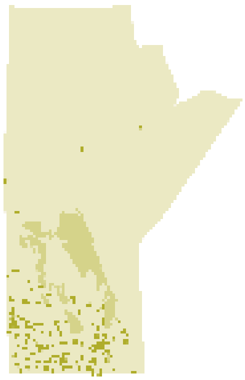



*Of the 519,907 memberships in Manitoba credit unions at year-end, 231,521 (45%) of those were in Winnipeg-based credit unions, while 288,386 (55%) were in credit unions based outside Winnipeg. (Statistics Canada estimated Manitoba's population to be 1,178,109 in October 2005 and the most recent census has 59% of Manitobans living in the provincial capital.)*

**System Assets** (billions of dollars)




*Total credit union assets stood at $10,170,012,008 on December 31, 2005. Winnipeg-based credit unions account for $4.33 billion (42.6%) of total assets, with credit unions based outside Winnipeg accounting for $5.84 billion (57.4%). Collectively, credit unions grew by 11.5% over 2004. While a fraction is attributable to new memberships, the increase clearly indicates that existing members are bringing more and more of their business to credit unions. This is supported by CUCM's market research, which has found a steady increase in the number of members for whom a credit union is their primary financial institution: the figure was 80% in the winter 2005 survey.*

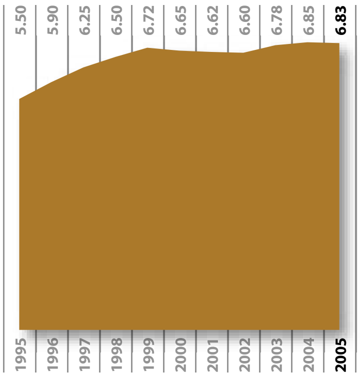


# Manitoba Credit Unions

*serve more than 100 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.*

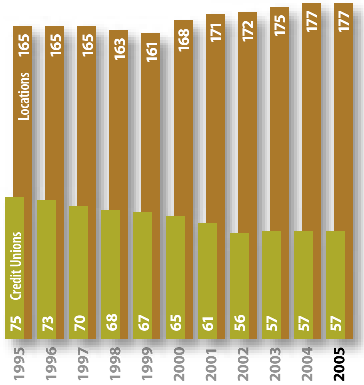
Altona • Amaranth • Angusville • Arborg • Ashern • Austin • Baldur • Beausejour • Belmont • Benito • Birds Hill • Binscarth • Birtle Boissevain • Brandon • Bruxelles • Carberry • Carman • Cartwright • Cypress River • Dauphin • Deloraine • Dominion City • Emerson Erickson • Eriksdale • Ethelbert • Flin Flon • Foxwarren • Fisher Branch • Gimli • Gilbert Plains • Gillam • Gladstone • Glenboro • Glenella Grandview • Gretna • Grunthal • Hamiota • Hartney • Headingley • Holland • Inglis • Inwood • Kenton • Killarney • Lac du Bonnet Landmark • La Riviere • La Salle • Lowe Farm • MacGregor • Manitou • Mariapolis • McAuley • Melita • Miami • Miniota • Minitonas Minnedosa • Minto • Moosehorn • Morden • Morris • Neepawa • Newdale • Ninette • Niverville • Oak Bank • Oak Bluff • Oak Lake Oak River • Oakburn • Oakville • Pilot Mound • Pinawa • Pine Falls • Pine River • Plum Coulee • Plumas • Portage la Prairie • Reston Rivers • Riverton • Roblin • Rorketon • Rosenort • Rossburn • Russell • St. Lazare • Ste. Rose du Lac • Sandy Lake • Sanford • Selkirk Shilo • Shoal Lake • Souris • Sprague • Starbuck • Steinbach • Stonewall • Strathclair • Swan Lake • Swan River • Teulon • The Pas Thompson • Treherne • Virden • Vita • Waskada • Whitemouth • Winkler • Winnipeg • Winnipeg Beach • Winnipegosis

**System Equity** (as a percentage of assets)



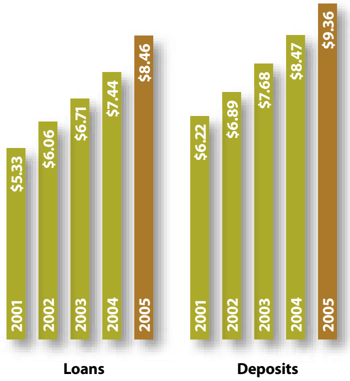

*Consolidated system equity grew by $70.2 million over the course of 2005, ending the year at $694.6 million. This figure includes $603.4 million in credit union equity, $85.9 million held by the Credit Union Deposit Guarantee Corporation (CUDGC) and $5.3 million held by CUCM (whose policy is to return most earnings to its owners and retain only a small reserve). A strong equity position is a key measurement of the strength of credit unions and the entire Manitoba system. In addition to the security that comes from a strong equity position, CUDGC provides a 100% guarantee on all member deposits.*

**Number of Credit Unions & Locations**




*The number of credit unions in Manitoba did not change in 2005. Of the 57 credit unions in the province, 15 are in Winnipeg and 42 are outside Winnipeg. While the actual number of credit unions remained static in 2005, two new branches opened during the year, both in Winnipeg. Crosstown Credit Union opened a new branch on St. Anne's Road in St. Vital and Civic Credit Union opened a new branch on Regent Avenue in Transcona. The gains were offset by closures as two Winnipeg credit unions, Vantis and Alliance, realigned their branch networks.*

**Loans and Deposits** (billions of dollars)




*Growth in loans and deposits were in double digits again in 2005. Overall lending activity for the year grew by 13.7%. Personal and commercial lending both grew by approximately 14%, pointing again to the fact that an increasing number of members are making a credit union their primary financial institution and bringing more of their borrowing business with them. Agricultural loan growth was much lower, at 7.9%. Personal loans including mortgages account for nearly 60% of all credit union loans, commercial loans account for nearly 25% and agricultural loans accounts for 14.5%. Credit unions continued to attract deposits by offering members and potential members highly competitive rates, resulting in 10.4% deposit growth over 2004.*

*All figures preliminary unaudited results*

Cucm's guiding principle is

*learn from the past, excel in the present and prepare for the future.*

As an organization, cucm is led by a series of statements that define its role in working for Manitoba credit unions. Our Vision defines what we want to be, our Mission defines why we exist, and our Corporate Values describe behaviours that we want to guide our actions in working with Manitoba credit unions as clients and partners to reach specific business goals. They provide the strategic framework by which we engage management and staff to meet the needs of our members and shareholders.

## VISION

- Cucm serves Manitoba's credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision.

## MISSION

*Cucm exists to:*

- Help Manitoba's credit unions meet their business needs
- Assist Manitoba credit unions in providing services to their members
- Provide trade association services for Manitoba's credit unions
- Value/promote co-operative principles

## CORPORATE VALUES

*Respect for people*

- All individuals are highly valued and are treated equitably.

*Integrity*

- We are reliable in our word, honouring commitments and promises.

*Excellence*

- In all we do, we are committed to the highest standards of performance, competence, and efficiency.

*Service*

- We serve Manitoba credit unions and their members.
- We steward the assets and affairs of the corporation for the benefit of Manitoba credit unions.

# *Message from the* CHAIRMAN

Between the first full year of working within a new corporate structure and moving into its new building at 317 Donald Street, to say that 2005 was a year of great change for Credit Union Central of Manitoba's management and employees is an understatement. Yet, despite the challenges, delays and interruptions, Central continued to deliver services at the high levels of efficiency and responsiveness that credit unions have come to expect.

Change was also the central topic of discussion for Central's board. Using a tool called scenario planning, the board and management began to look much further into the future — to 2015, and how Central can plan for long-term changes to the provincial and regional credit union systems and the environments in which they operate.

Central's board — with input from management and the wider system — has been engaged in rigorous, systematic planning for some time. Since 2001, the company has defined its core, centralized and customized services, identified and executed key process improvements and designed and implemented a new corporate structure that came into effect January 1, 2005 — all with a view to improving the existing organization in order to better serve the needs of Manitoba credit unions. The result of the changes of the past few years is a company that can more nimbly respond to the needs of its members, that is more capable of building alliances and that is among the most efficient of all provincial Centrals. It also resulted in a company that is as open to change as it is capable of making it happen and adjusting to it.

The scenario planning process is significant for two reasons. It uses facts, trends and rigorous analysis to develop — incorporating system feedback at various stages along the way — as clear a picture as possible of what the system might look like in 10 years under three distinct scenarios, then examines the impact each of those scenarios would have on credit unions, Central and the wider system. Second, it demonstrates not only that the board and management of Central are committed to the company's vision and mission, but that they are proactive in delivering on the commitments contained in those statements and will do whatever is required to help credit unions achieve their goals — even if the result is a dramatically different central organization.

In related activity in 2005, members of the board and Central's executive team continued to hold discussions with peers from across the region on the topic of potential alliances.

CUCM IS AS OPEN TO CHANGE AS IT
IS CAPABLE OF MAKING IT HAPPEN

We discussed and examined areas in which we could work together to better meet the needs of credit unions and help them operate more effectively in the highly competitive financial services industry.

At this time last year, I predicted that credit unions would continue to see the benefits of CUCM's leadership as we moved into 2005 and beyond. Manitoba credit unions grew by 11.5 per cent in 2005 while Central, under the capable direction of CEO Garth Manness, came in under budget and refunded a portion of credit unions' trade funding while continuing to meet the ongoing needs of credit unions.

I would like to thank the nine districts and all 57 credit union boards of directors for their continued, excellent work in 2005. I would also like to thank my colleagues on the CUCM board, every one of whom is deeply committed — not only to their work on behalf of all credit unions, but also to the highest standards of governance in carrying out their duties.

RUSSELL FAST
Chairman, Board of Directors

# Board of Directors

**DISTRICT 1, CHAIR**

**Russell Fast**
*Executive Committee*

**DISTRICT 8, FIRST VICE-CHAIR**

**Alexander (Sandy) Wallace**
*Committees: Executive, Level IV System Credit*

**DISTRICT 9, SECOND VICE-CHAIR**

**Wayne McLeod**
*Executive Committee*

**DISTRICT 2**

**Al Morin**
*Committees: Investment, Audit, Conduct Review*

**DISTRICT 3**

**Frank Pisa**
*Committees: Investment, Level IV System Credit (chair)*

**DISTRICT 4**

**Dave Abel**
*Committees: Audit, Conduct Review, Level IV System Credit*

**DISTRICT 5**

**Glenn Karr**
*Committees: Investment (chair), Level IV System Credit (vice-chair)*

**DISTRICT 6**

**Alex J. Eggie**
*Committees: Audit (chair), Conduct Review (chair), Investment (vice-chair) Bylaws and Resolutions (chair)*

**DISTRICT 7**

**Norval Lee**
*Committees: Audit (vice-chair), Conduct Review (vice-chair)*

*Russell Fast* *Sandy Wallace* *Wayne McLeod*

*Al Morin* *Frank Pisa* *Dave Abel* *Glenn Karr* *Norval Lee* *Alex Eggie*

# The Co-operative Principles

*The Seven International Co-operative Principles are guidelines by which co-operatives put their values into practice. Part of CUCM's mission is to promote these principles.*

1. **Voluntary and Open Membership**
   *Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.*

2. **Democratic Member Control**
   *Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.*

3. **Member Economic Participation**
   *Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.*

4. **Autonomy and Independence**
   *Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.*

5. **Education, Training and Information**
   *Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.*

6. **Co-operation among Co-operatives**
   *Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.*

7. **Concern for Community**
   *Co-operatives work for the sustainable development of their communities through policies approved by their members.*

# *Message from the President and* Chief Executive Officer

In October of 2005, the collective assets of Manitoba credit unions reached $10 billion, 12 months after having reached the previous billion-dollar mark. By year-end, assets were $10.17 billion, 11.5 per cent higher than the previous year. Credit unions' equity position kept pace, growing by $60.2 million to end the year at $603.4 million, or 5.93 per cent of assets.

Credit unions also opened 16,000 new memberships over the course of the year, attracting Manitobans with their competitive deposit and lending rates, versatile products and services and the practical balance of personal and electronic service delivery that Manitobans choose. By now, many of those new members will also have discovered that credit unions provide value not only on the product and service side, but that their nature as Manitoba community based, independent financial institutions allows them to respond quickly to members' needs and that they are committed to the communities in which they live and work.

Credit unions expect the same level of service, commitment and versatility from their trade association and primary service provider, Credit Union Central of Manitoba (CUCM).

In the same way credit unions serve their members, CUCM is continually working to create a service organization that meets the needs of its owners, Manitoba's 57 credit unions, that offers products and services at reasonable and fair costs that benefit their operations and that is responsive to all issues. Value is paramount to member credit unions and CUCM is striving to continually improve the value of its services.

For several years, CUCM has used overlapping three-year planning windows to examine its operations and institute the changes required to increase efficiency without compromising quality and to develop and offer credit unions new products and services. In 2005, CUCM further opened the planning window through scenario planning.

Among the other things it accomplished, the scenario planning exercise emphasized to participants that working together — at all levels, credit union to credit union, CUCM to credit union, and Manitoba credit unions and CUCM with strategic partners and others at the regional and national levels — will become increasingly important as we move into the future. Partnerships and alliances — like Celero, Everlink and CUSOURCE, which must increasingly prove their value to credit unions as they mature as companies — will be looked at more closely as the demands on all credit unions increase.



Part of CUCM's role is to anticipate where the competitive drivers will come from and to respond to credit unions' changing needs. The same applies to regulation and emerging issues.

Cucm will continue to work at the national and regional levels to ensure that Manitoba credit unions are represented on issues and initiatives, like those surrounding potential bank mergers, and in companies in which CUCM and Manitoba credit unions have an ownership stake, such as Celero.

Security is another area where working together at the national level is essential: in 2005, the Interac Association set out a timetable for conversion to chip card technology. In order to allay members' concerns about ATM and point-of-sale fraud, credit unions need to be on the curve of that timetable along with competitors, if not ahead of it. The financial and human resource investments will be considerable as the provincial Centrals and all credit unions work together on this important issue.

Credit unions and the organizations and associations dedicated to their support must stay relevant by developing and implementing products and services that will meet the evolving needs of current and future members. At the same time, members expect credit unions to stay true to their roots of cooperation, democratic control and commitment to community — to all seven of the co-operative principles, in fact, that are at credit unions' very foundation and which make them unique among financial institutions.

The next generation of consumers must not only be attracted to credit unions for service, but young people need to be encouraged to become engaged in the democratic process so they can bring their enthusiasms and views to credit union boardroom tables. To attract them, students, young professionals, young farmers and trades people must be shown the power credit unions and co-operatives have to help create better communities at the local, regional, provincial, national and international levels.

Cucm will continue to strive to provide Manitoba credit unions with leadership and services as we move together into the future. Cucm will work to stay relevant to credit unions by monitoring the marketplace and acting on information it gathers. Cucm is

IN THE SAME WAY CREDIT UNIONS SERVE THEIR MEMBERS, CUCM IS CONTINUALLY WORKING TO CREATE A SERVICE ORGANIZATION THAT MEETS THE NEEDS OF ITS OWNERS, MANITOBA'S 57 CREDIT UNIONS



prepared — as it did in 2005 with CU Advisor and Internal Audit — to introduce new products and services as demand dictates. In short, CUCM will continue to adhere to its vision of serving credit unions by providing leadership and ensuring the delivery of high-quality products and services that help them achieve their vision.

I would like to acknowledge and thank every staff member of CUCM and Celero for their efforts in 2005 to continue to serve the needs of credit unions while preparing for and carrying out the move to 317 Donald. I would also like to acknowledge and thank the board of directors, and Chairman Russ Fast in particular, for their guidance and sound advice during a year in which CUCM and credit unions were faced with a number of major issues and a great deal of activity on all fronts.

GARTH MANNESS
President and Chief Executive Officer

# Executive Management

**PRESIDENT *and***
**CHIEF EXECUTIVE OFFICER**

**Garth Manness**

**CORPORATE SECRETARY**

**Dale Ward**

*Corporate Governance | Privacy Officer*
*Ombudsman | Legislative Compliance*
*Manuals | Printing & Supply*

**TREASURER *and***
**CHIEF FINANCIAL OFFICER**

**Mike Safiniuk**

*Treasury Services | Controller*

**DIVISION MANAGER,**
**HUMAN RESOURCES AND CONSULTING**

**Brian Peto**

*Human Resources | Payroll | Training*
*HR and Business Consulting*

**DIVISION MANAGER,**
**CORPORATE SERVICES**

**Bob Lafond**

*Corporate and Government Relations*
*Public and Media Relations*
*Communications | Marketing*

**DIVISION MANAGER,**
**STRATEGIC SOLUTIONS**

**Audrey Maeren**

*Project Management | Research & Planning*

**DIVISION MANAGER,**
**BANKING AND PAYMENT SERVICES**

**Wilson Griffiths**

*Clearing | Banking Services*
*Technology Support, R&D*

**DIRECTOR, LENDING SERVICES**

**Bernard C. Carling**

*System Credit*

*Dale Ward* *Mike Safiniuk* *Garth Manness*

*Bernard C. Carling* *Brian Peto* *Bob Lafond* *Audrey Maeren* *Wilson Griffiths*

*Credit Union Central of Manitoba is the trade association for the province's 57 autonomous credit unions. As prescribed by Manitoba's* Credit Unions and Caisses Populaires Act, *CUCM manages liquidity reserves, monitors credit granting procedures and provides financial and other services to credit unions including banking, treasury, corporate governance, government relations, representation and advocacy, and legal services. As well, credit unions have access to payment and settlement systems, human resources, research, communications, marketing, planning, lending, product/service R&D and business consulting through CUCM. Manitoba credit unions jointly own CUCM and representatives from nine provincial districts sit on its board of directors. CUCM is financed through assessments and fee income derived through its operations.*



In its annual corporate strategic planning document, Credit Union Central of Manitoba (CUCM) identifies **strategic issues** that guide the company in delivering on its vision of serving Manitoba credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision. Set out after consultation with credit unions, the board and Management Advisory Committee, the strategic issues can vary in number and specifics from year to year. CUCM had four strategic issues in place in 2005: ensuring value for CUCM's activities, planning for the future, effectively managing change and having the right people with the right skills today and tomorrow.

**Ensuring value for CUCM's activities** underscores all activities performed on behalf of credit unions. As a strategic issue in 2005, it related specifically to CUCM's evaluation of its funding models for new business opportunities and a review of the R&D Framework.

In 2005, CUCM made significant advances in **planning for the future**. With support from its Management Advisory Committee and membership, CUCM identified three

## Credit Union Central of Manitoba

### 1934

Credit Union National Association (CUNA), the first credit union trade association in North America, is formed. Madison, Wisconsin is chosen as the site for CUNA headquarters.

### 1937

Manitoba Premier John Bracken signs an amendment to the *Companies Act,* establishing the first legislation governing credit unions.

scenarios of the future and began developing strategies to plan for them, including identifying triggers that will signal the direction change is taking credit unions and CUCM.

**Effectively managing change** was a highly significant strategic issue for CUCM in 2005. Improvements were made to five business processes (Advocacy, Key Relationships, Corporate Information, R&D Project Process, and Research & Planning), bringing to 21 the number of process reviews the company has conducted over the past three years; effective project management contributed to the completion of 22 of 25 planned 2005 projects; and alignment of the organizational structure along competency lines enabled the company to deliver new products and services to its members and address the impacts of I/T leaving CUCM, known as the Celero Gap.

In addressing the strategic issue of **having the right people with the right skills today and tomorrow**, CUCM developed and implemented a full succession plan for the organization that was supplemented by divisional and departmental plans. Through enhancements in 2005 to the company's job evaluation management tool, training and development programs are better documented and monitored, which supports succession plans and helps CUCM personnel improve on their core competencies.

CUCM HAD FOUR STRATEGIC ISSUES IN PLACE IN 2005: ENSURING VALUE FOR CUCM'S ACTIVITIES, PLANNING FOR THE FUTURE, EFFECTIVELY MANAGING CHANGE AND HAVING THE RIGHT PEOPLE WITH THE RIGHT SKILLS TODAY AND TOMORROW.



In addition to the strategic issues, CUCM is guided by its value proposition, *High Quality, Superior Service, Competitive Price* and guiding principles, *Learn from the Past, Excel in the Present, Prepare for the Future*.

Representing credit unions' interests with government, regulatory agencies and others at the provincial, regional and national levels, **advocacy** is a key area in which CUCM **ensures value for its activities**.

In 2005, CUCM advocated on behalf of credit unions with key government officials on a number of issues, including the continued challenges facing cattle, hog and grain producers in the agricultural sector, as well as other items of importance to credit unions — such as expanding the list of eligible corporations and investment levels for eligible corporations — that arose from CUCM's law review process. CUCM met with and held discussions with the Premier, the government caucus, senior ministers and numerous other officials at the provincial and federal levels.

### 1937

Manitoba's first credit union is chartered in St. Malo (it later became a caisse populaire).

### 1940

U.S.-based CUNA amends its bylaws to allow membership of credit union leagues anywhere in the Western Hemisphere.

### 1943

Manitoba credit unions found their first provincial organization — the Credit Union Federation of Manitoba. The Federation joins CUNA's International Association of Credit Union Leagues and is closely aligned with CUNA in terms of information, forms, publications and procedures.

Cucm continued to lobby the provincial government for pension reform. In the fall of 2005, the government acted on changes suggested by cucm to provide greater flexibility for defined contribution pension fund withdrawals. Throughout the process, cucm was supported by the Cooperative Superannuation Society and Concentra Financial. Efforts will continue in 2006 to increase the minimal withdrawal rates for locked-in funds.

Cucm continued to work with Credit Union Central of Canada (cucc) on its federal government relations program, primarily on the issue of establishing a National Agricultural Advisory Committee. Cucm also participated in meetings with federal politicians to clarify the credit union position on bank mergers.

As part of its ongoing legislative review process, cucm continued to actively participate in committees focused on provincial and federal legislation, with the goal of ensuring the most positive legislative framework possible for credit unions. While many changes will have been delayed by the January 2006 federal election, progress on a number of provincial *Credit Unions/Caisses Populaires Act* and regulation changes are expected to go forward in 2006.

CREDIT UNIONS REQUIRE PRACTICAL, COST-EFFECTIVE SOLUTIONS THAT WILL HELP THEM MEET THE MOUNTING DEMANDS ON THEIR BUSINESSES.



In 2005, the **Articulation of Advocacy** project provided a formal definition of cucm's role. *On behalf of its stakeholders, Credit Union Central of Manitoba engages in advocacy to funnel important information to leaders of government, regulatory agencies, industry associations, Manitoba credit unions and provincial and national systems to facilitate informed and balanced decision-making, create beneficial programs, resolve conflicts and build and maintain a positive reputation for Manitoba credit unions*. The project also identified resources and set out procedures for cucm personnel involved in advocacy efforts.

Credit unions, through cucm, have the opportunity to contribute to community and economic development in Manitoba by working closely with key industry, trade and professional associations and their representatives. In 2005, the **Key Relationship Strategy** project articulated processes to develop and evaluate such relationships.

In response to developments in areas like technology, legislation, regulation and competition, credit unions require practical, cost-effective solutions that will help them meet the mounting demands on their businesses. In many cases, this is achievable through **partnerships and strategic alliances**. Cucm has been — and will continue to be — active

## 1944

Fifteen credit unions join together to found Manitoba Central Credit Union to provide financing services (liquidity pooling).

## 1950

Act to incorporate Co-operative Credit Society of Manitoba (CCSM) Limited passes in legislature. CCSM brings the Credit Union Federation of Manitoba (promotion, education, public relations, group buying, field services, etc.) and the Manitoba Central Credit Union (financing/ liquidity pooling) together under one organization.

## 1952

Twenty affiliated caisses populaires leave CCSM to join la Caisse Centrale de St. Boniface (later la Fédération des Caisses Populaires du Manitoba).

in assessing such opportunities as they arise and, once they are in place, monitoring their performance and the value they deliver to credit unions.

Sourcing and evaluating a new banking system was one of the primary drivers of value when five organizations — the three Prairie Centrals, CUETS and Concentra Financial — first proposed combining their I/T operations in 2001. This project has occupied **Celero Solutions** for the better part of two years. After examining a number of solutions, one was found in the fall of 2005 that met credit unions' requirements. By December, the level of support was such that Celero could complete the agreement whereby it will offer banking services to Prairie credit unions using Open Solutions' *The Complete Credit Union Solution* (TCCUS) software. Implementation will begin in 2006.

SOURCING AND EVALUATING A NEW BANKING SYSTEM WAS ONE OF THE PRIMARY DRIVERS OF VALUE WHEN FIVE ORGANIZATIONS FIRST PROPOSED COMBINING THEIR I/T OPERATIONS IN 2001.

Celero also implemented an operational review aimed at ensuring that the company operates its core functions in a manner that meets customer demands and fulfills shareholder expectations. A blueprint for analysis will be completed by February 2006.

**Everlink Payment Services** provides EFT services to credit unions. Owned by Metavante Corporation (51%) and Celero (49%), the major activities for Everlink in 2005 were the hiring of a new president, the migration of Manitoba and Alberta credit unions to the Everlink switch and the purchase of the switching business of CDSL, a subsidiary of CGI. With its purchase of the CGI switching assets, approximately 90 per cent of Canadian credit union activity — as well as a second-tier Canadian bank and a number of independent sales organizations — is now handled by Everlink.



As Celero's HR services provider, the Human Resources department was involved in supporting the due diligence activities surrounding the purchase of the CGI switching business and, with the completion of the purchase, in implementing insured benefit and payroll services for Everlink.

In 2003, most of the training that provincial Centrals offered credit unions was amalgamated in a new, national company, **CUSOURCE**. After a slow start in its first two years, the company experienced tremendous growth in 2005 as support for its various training products increased across the country. As of the end of November, total revenue and net income were over budget by 19 and 3.3 per cent, respectively. Ten Manitoba credit unions signed service level agreements in 2005, bringing the number to 29 (it went from 172 to 231, nationally), there are now 1,684 active CUSOURCE students in Manitoba, and individual subscriptions to online learning went from 836 in 2004 to 1,311 in 2005.

## 1953

Canadian Co-operative Credit Society Limited (Credit Union Central of Canada), an umbrella organization for provincial co-operative credit societies, is incorporated.

## 1956

Credit Union League of Manitoba incorporated. Its function is similar to the former CU Federation of Manitoba. Its bylaws state that the main managerial employee of the League and CCSM be one and the same person. CCSM contracts staff, administration and office space from the League.

## 1963

Credit Union Financial Services Ltd. (and CUFS Loan Corporation) formed as subsidiary of CCSM to provide members with mortgage financing.

In many cases, CUCM's activity in the area of partnerships extends beyond the provision of products or services. It also includes support for and participation on national committees.

CUCM actively participated with other provinces and Credit Union Central of Canada (CUCC) in various aspects of the **Special Strategy Committee on Bank Mergers** (SSC) and will continue to do so as the committee's initiatives progress. CUCM participated directly at the committee level, chaired and resourced the ATM subgroup, resourced and participated in the Small and Medium-Sized Enterprises (SME) subgroup and is playing a lead role on the bank branch purchase subgroup (the Centralized Negotiating Team and its support group, the Acquisitions Working Group). With a credit union representative also on the Community Leadership Initiatives Committee, Manitoba is well represented on the SSC.

FRAUD IS A CONCERN FOR DEBIT AND CREDIT CARD PROVIDERS THE WORLD OVER AND THEY ARE RESPONDING VIGOROUSLY. A KEY COMPONENT OF THAT RESPONSE IS THE DEVELOPMENT OF MICROCOMPUTER-EMBEDDED CARDS.

Fraud is a concern for debit and credit card providers the world over and they are responding vigorously. A key component of that response is the development of microcomputer-embedded cards that provide far greater security than the current magnetic stripe technology. In 2005, Canada's Interac Association mandated that all new ATM and point-of-sale (POS) devices must meet chip specifications after December 31, 2007 and that magnetic stripe cards will not be allowed for ATM withdrawals after 2012 or POS transactions after 2015. Manitoba has a credit union representative on the **Chip Strategy Task Force** (CSTF), which CUCC set up in 2005 to plan for the migration of all credit union cards. In 2006, that task force will become a permanent committee with representation from CUCM.

The Canadian Payments Association (CPA) is leading an industry-wide initiative to adopt a new clearing process based on cheque images instead of the original cheques. The **Truncation and Electronic Cheque Presentment** (TECP) initiative is targeted for industry wide implementation by the end of 2009. As an organization with extensive first-hand experience (having migrated all document processing functions including Canadian and U.S. cheque deposits and clearings and paper-based bill payments to a new cheque imaging platform in 2003), CUCM is playing a key role in working with CUCC, other provincial Centrals and the CPA to develop the new standards and plans for TECP. In order to comply



## 1964

CCSM moves to 171 Donald Street (the Crosstown Credit Union building, renamed The Credit Union Building), vacating space shared with League at 191 Provencher Blvd.

## 1969

The Credit Union Building at 171 Donald is expanded. CU League, CUNA Mutual and other affialites move in.

## 1971

World Council of Credit Unions is founded.

Credit Union League renamed League Services and operates as subsidiary of CCSM.

with the CPA's draft standards, in 2005 CUCM completed the detailed requirements for implementation, as well as a business case for acquiring hardware upgrades and developing the necessary software. Development, testing and further preparation for this major initiative will continue through 2006 and 2007.

CUCM continues to review an opportunity to partner with Credit Union Payment Services (CUPS), a joint venture payments utility owned by the Saskatchewan and Alberta Centrals. The review will continue into 2006 as the organizations consider the longer-term opportunities associated with key initiatives such as the TECP project.

Research is vital to **planning for the future**. In addition to the Strategic Intelligence Report that provides credit unions with information on the competitive position of credit unions, opinion research and information on emerging trends and issues, CUCM wrote an Aboriginal strategy paper in 2005 that documents the demographic, regulatory and socio-economic situations of the fastest growing segment of Manitoba's population. The report will be released in the first quarter of 2006.



Between March and May of 2005, as part of a **scenario planning** exercise, credit unions and other CUCM stakeholders identified themes and patterns from information presented in CUCM's Strategic Intelligence Report. Those themes and patterns were then developed into long-term scenarios that depict three environments in which credit unions and CUCM could be operating in 2015. Articulating and understanding these scenarios enables CUCM to effectively plan for credit unions' future needs and their demands for service from CUCM. The scenarios also hint at the kinds of strategic partnerships CUCM would need to enter into in order to continue to meet the needs of Manitoba credit unions.

A second part of the process involved the development of indicators of change that would signal the advent of one or more of the scenarios. By understanding scenarios before they are played out, CUCM will be able to more effectively deploy appropriate strategies in response.

In addition to items that appear in other sections of this report — such as the corporate reorganization — providing new products and services, improving processes and dealing with compliance issues helped drive CUCM's efforts to **effectively manage change** and thereby optimize value to credit unions.

## 1979

Assets of CU Financial Services are transferred to the parent company, CCSM; League Services are also moved into CCSM proper.

Amalgamated CCSM moves into new office tower at 215 Garry Street.

## 2004

Co-operative Credit Society of Manitoba legally renamed Credit Union Central of Manitoba.

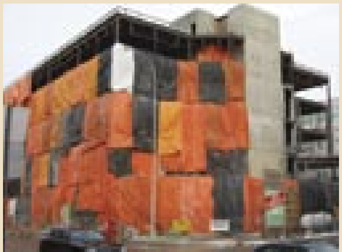
## 2005

Credit Union Central of Manitoba moves into new, custom-built building at 317 Donald Street.










*At left: 317 Donald as construction progressed through 2004 (top to bottom): June 30, August 20, September 17, October 8, November 2, November 17 and December 3.*
*Above: The wraps are off — March 28, 2005.*

# 317 Donald Street

When CUCM and Celero publicly announced the plan, in February 2004, to relocate to 317 Donald, CUCM CEO Garth Manness said "maintaining a presence in downtown Winnipeg and a strong role in the city's business community was an important consideration as we moved through the process of considering our options." Winnipeg's mayor applauded credit unions on their decision and pointed to the 317 Donald project as unique in that it did not ask for or receive incentives from any level of government to build downtown.

The Occupancy Project (as everything related to the assessment of requirements, site selection, design, construction and the move into the new facility was known) began in 2003, with activity in that year culminating in CUCM taking the plans for the proposed building out to credit unions for their feedback and eventual approval. 2004 was dedicated to building project teams, consulting with all staff on their needs and planning for the considerable technical requirements of the anchor tenants, CUCM and Celero.

Site excavation began in May 2004, the outer shell was completed by March 2005, interior construction began in April and all staff were in their permanent locations by November. Throughout the complex, multi-phased move, CUCM and Celero accomplished their major objective: minimal service disruption to credit unions.

317 Donald was a built-to-lease solution based on CUCM and Celero specifications. In 2006, CUCM will evaluate an option to purchase the building and take a recommendation forward to the board of directors.

Cucm launched a new product in 2005, **CU Advisor**, which provides cucm and participating credit unions with access to an affordable, convenient, online method of contacting and surveying members on important issues as they arise.

The company also developed a business case and subsequently introduced a user-pay **internal audit service** for Manitoba credit unions. Further research and business case development will continue, in 2006, within the broader context of Enterprise Risk Management.

A **forms library** was added to the E-Manuals site that includes two versions of each of the 133 forms in the library — a blank one that can be downloaded and used by credit unions and a corresponding proforma that shows users how to fill it out.

Treasury Services added the **discounting of residential mortgage rates**, which has become increasingly common in today's marketplace, to its weekly interest rate survey. This information further assists credit unions in their efforts to better position themselves against competing banks and mortgage brokers.

As part of an ongoing effort for process improvement, the System Credit Committee converted to **electronic approval letters** to ensure that all credit union personnel involved in the credit approval process receive written confirmation of its decisions in a timely manner.

CU ADVISOR, A NEW PRODUCT IN 2005, PROVIDES CUCM AND PARTICIPATING CREDIT UNIONS WITH ACCESS TO AN AFFORDABLE, CONVENIENT, ONLINE METHOD OF CONTACTING AND SURVEYING MEMBERS ON IMPORTANT ISSUES AS THEY ARISE.

Lending Services, Manuals and cucm's legal counsel developed an improved set of **standard charge mortgage terms** that replaced all existing sets registered at the Land Titles office. This resulted in a number of supplementary forms being enhanced to complement the new set of terms. Cucm also revised the Internal Audit section of the Operations Manuals, with the assistance of cudgc.

**Safekeeping** and the **Investment Administration Solution**, initially a single project, were broken apart in 2005. As a result, cucm successfully executed a long-term contract for safekeeping services and made considerable progress towards securing a treasury investment administration system. Cucm expects to select a system in the first half of 2006 and then proceed with implementation.

The Democratic Control Review Committee met a number of times in 2005 to review various models to respond to amalgamations that would create credit unions larger than the current thresholds for district size and director representation. Delegates to the annual general meeting in 2006 will consider the resulting **multiple director bylaw amendment proposal**.

In 2005, cucm produced its first comprehensive, enterprise-wide report on compliance elements identified for monitoring by osfi. The **legislative compliance process** has now been adopted as an annual management control routine.

PricewaterhouseCoopers completed the first **cica 5900 audit** of the clearing centre to validate that cucm has an appropriate control structure in place to safeguard all payments data — stored cheque images, in particular. Banking & Payment Services also developed a revised **disaster recovery plan** for critical division services and forwarded it to osfi in 2005. Cucm's corporate disaster recovery and business continuity plan was repatriated from Celero (it resided with the former I/T division), and revised and updated in 2005; in 2006, each department's plan will be similarly reviewed.

Cucm's success, as measured in its ability to deliver value to credit unions, depends on **having the right people with the right skills today and tomorrow** — on having professional, knowledgeable and experienced managers and employees in areas where their skills can best be used.

The **corporate restructuring** that came into effect in January 2005 created three new divisions. Banking & Payment Services is now a stand-alone division. Strategic Solutions provides end-to-end research, planning and project management solutions to its members and strengthens cucm's management philosophy of achieving goals through corporate strategy projects and operational improvements. The addition of new fee-based services eased the division's reliance on funding previously provided by cucm's I/T division.



CUCM DIRECTORS APPROVED A BOARD CHARTER THAT OUTLINES THE CORE FUNCTIONS AND AUTHORITY OF THE BOARD AS A WHOLE AND THE KEY RESPONSIBILITIES OF INDIVIDUAL DIRECTORS.

Several aligned functions were brought together in the other new division, Corporate Services, which is responsible for corporate and ceo support, government relations, advocacy, strategic partnership management, media relations, public relations and communications. The division also provides credit unions with marketing and member communication services.

The Controllers department spent a great deal of time in 2005 realigning departments' allocated costs along the company's new organizational structure. As cucm's philosophy of full costing and no cross-subsidization also applies internally, costs in a number of areas were reallocated to departments based on their proportional usage. One noticeable result was the increased allocation of Controllers costs to Treasury for services related to liquidity management.

Cucm directors approved a **board charter** that outlines the core functions and authority of the board as a whole and the key responsibilities of individual directors. The board charter also includes a description of 12 critical director competencies, as identified by the board.

Lending Services participated in the **professional development** day at cumam's October conference. The presentation was well received and cumam is considering holding an annual event for the benefit of lenders.

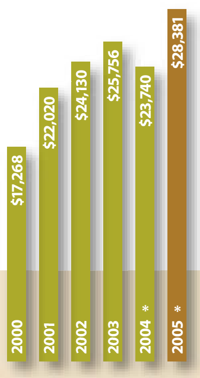
In 2005, management commissioned an internal study of **Printing & Supply** to determine whether the department could meet the needs of credit unions for at least the next five years while returning a net profit to cucm. The study, which examined the department's potential and whether it is currently meeting credit unions' needs, found that an adequate market exists to sustain Printing & Supply as a profitable business unit and recommended that it continue to operate and take steps to increase sales. Beginning in 2006, additional resources will be devoted to promoting the department, developing new products and enhancing web-based sales.

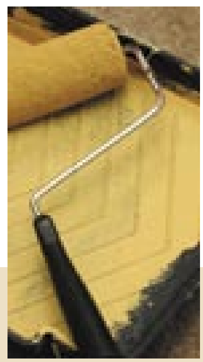
In partnership with the Centrals of Saskatchewan, Alberta and B.C., CUCM published **salary and benefit information** for executive, management and staff positions, in 2005, and a separate survey on director compensation.

Working in partnership with Credit Union Central of Saskatchewan, HR employees were certified in the delivery of **Competency-based Performance Management** in order to be able to support credit unions that have adopted that approach to their management of human resources.



## Because We Live Here.



*Led by Human Resources, CUCM staff participated in a highly successful **United Way All Charities Campaign** in October. Total employee donations increased 20 per cent over 2004 to an all-time high of $28,381 with the average employee donation of $465 far surpassing the Winnipeg average of $171. In addition to financial contributions, 40 CUCM and Celero employees participated in a United Way **Day of Caring**: they spent the day painting the interior of a family resource centre for low-income families in south Winnipeg.*

*CUCM continued to support the **Manitoba Aboriginal/Black Youth Internship Program** in 2005, as well as **Labour and Workplace Studies** through the University of Manitoba. CUCM also began to develop longer-term relationships with outside agencies and advocacy groups that have established relationships with underrepresented employee groups. Diversity training also continued in 2005 with new supervisors and staff.*

* *Contributions from Celero employees (previously CUCM's I/T department) not included.*
Because We Live Here *is United Way of Winnipeg's campaign slogan and is used by permission.*

MANITOBA CREDIT UNIONS

# Order of MERIT



Established in 2003, the Manitoba Credit Unions Order of Merit recognizes individuals who — whether as employees or elected officials — have demonstrated significant commitments to Manitoba credit unions and the communities in which they operate. Each year, up to three individuals are selected to receive the award, based on their exemplary service to Manitoba credit unions, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the Seven International Co-operative Principles.

In addition to the commemorative plaque they receive as part of the award, recipients or their representatives also have the honour of selecting a Manitoba secondary or post-secondary educational institution and faculty or program to receive a bursary, to be awarded to a student based on achievement, need or other criteria. In 2005, the Credit Union Managers' Association of Manitoba matched CUCM's $500, bringing the total value of the bursary to $1,000 per student.

Of the nominations the Order of Merit selection committee received for 2005, sufficient records of the individuals' lifelong involvement within the wider credit union system did not exist for two of them, although the historical importance of their work was evident. The committee created a special category for those nominations and both awards for 2005 were made in the new *Pioneer* category.

## Monsignor Arthur Benoit

Courtesy Parish of St. Malo

*Monsignor Arthur Benoit has long been recognized as the founder of the first credit union in Manitoba. Founded in 1937, St. Malo (later a caisse populaire) was one of many credit unions organized from within Catholic parishes. Although a credit union had been established and was operated by Father St. Amant in St. Jean Baptiste from 1911 to 1918, St. Malo was the first to be chartered under provincial legislation — a 1937 amendment to the Companies Act — that enabled the formation of credit unions.*

*In the 1930s, Father Benoit (Monsignor by the time of his death in 1948) saw that his parishioners — like most farmers on the continent — were suffering. He brought them together to help each other financially. The first loan to a member, $56.50 to be repaid in monthly installments of $2.00, financed the purchase of a cream separator. Father Benoit's activity appears not to have ended in St. Malo. In 1942, one year after he was appointed its parish priest, Holy Cross Credit Union was chartered. While no evidence can be found that shows Father Benoit was a founder of that Winnipeg credit union, the timing is not likely coincidental.*

*The Parish of St. Malo has asked that the bursary in Msgr. Benoit's name be awarded to a 2006 Grade 12 graduate from the St. Malo area who also successfully completed the parish's Religious Studies credit program.*



## Norwood Study Group Number 1

*The lack of access to credit during the Great Depression of the 1930s provided enormous impetus to the development of credit unions in rural and urban centres throughout North America. The message about credit unions reached Manitoba through churches, unions, immigration, newspapers — and radio.*

*Chicago's WCFL (The Voice of Labour, which reached into Canada) carried broadcasts from the Extension Services department of St. Francis Xavier University in Antigonish, Nova Scotia. "Credit unions will help you lift yourself by your own bootstraps," the broadcasts declared. For the price of printing and postage, listeners could send away to Antigonish for workbooks that led them through the process of forming and operating co-operatives. The Norwood Grove Study Group #1 — David Harriman, Fred Everett, Walter Thomson and Leonard Schaumloffel — listened to the Antigonish broadcasts, worked through the material and, in 1938, formed Winnipeg's first credit union.*

*Norwood Credit Union would eventually merge with Heritage, which later merged with Co-operators — which was subsequently renamed Cambrian Credit Union in 1986.*

Norwood Credit Union Board of Directors, circa. 1940

*Manitoba Department of Agriculture handbook, printed 1942*

*The board of Cambrian Credit Union has asked that the $1,000 bursary be awarded to a graduating student from Norwood's Nelson McIntyre Collegiate who is pursuing post-secondary education and has maintained a good grade point average and demonstrated active involvement and leadership in his or her community or school.*

CREDIT UNION CENTRAL *of* MANITOBA

## MANAGEMENT REPORT

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
*President and*
*Chief Executive Officer*

MIKE SAFINIUK
*Treasurer*

PRICEWATERHOUSECOOPERS

## AUDITORS' REPORT

To the Members of
Credit Union Central of Manitoba Limited

We have audited the balance sheet of Credit Union Central of Manitoba Limited as at December 31, 2005 and the statements of operations and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
*Winnipeg, Canada*
*January 27, 2006*

## Balance Sheet As at December 31, 2005

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Liquidity pool (note 2) | 1,268,201 | 1,271,867 |
| Intermediation pool (note 3) | 204,220 | 97,606 |
| Service related (note 4) | 9,531 | 5,483 |
| | 1,481,952 | 1,374,956 |
| **Liabilities** | | |
| Members' deposits | 1,392,908 | 1,280,973 |
| Accounts payable | 5,588 | 3,409 |
| | 1,398,496 | 1,284,382 |
| **Members' Equity** | | |
| Share capital (note 5) | 79,328 | 87,137 |
| Reserves | 4,128 | 3,437 |
| | 83,456 | 90,574 |
| | 1,481,952 | 1,374,956 |

Approved by the Board of Directors

DIRECTOR DIRECTOR



## Statement of Operations and Reserves For the year ended December 31, 2005

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| **Financial revenue** | | |
| Liquidity pool | 49,756 | 46,572 |
| Intermediation pool | 4,643 | 2,828 |
| | 54,399 | 49,400 |
| **Cost of funds** | 49,650 | 44,162 |
| **Financial margin** | 4,749 | 5,238 |
| Share of Celero's income | 67 | 562 |
| Net operating recovery (note 7) | 141 | 33 |
| | 208 | 595 |
| **Income before credit union patronage rebates** | 4,957 | 5,833 |
| **Credit union patronage rebates** | | |
| Financial margin | 840 | 1,386 |
| Distribution of Celero's income | 67 | 562 |
| | 907 | 1,948 |
| **Income before income taxes** | 4,050 | 3,885 |
| **Provision for income taxes** (note 8) | 695 | 709 |
| **Net income for the year** | 3,355 | 3,176 |
| **Reserves — Beginning of year** | 3,437 | 3,001 |
| | 6,792 | 6,177 |
| Dividends — net of related income tax savings (note 8) | (2,664) | (2,740) |
| **Reserves — End of year** | 4,128 | 3,437 |

## Statement of Cash Flows

For the year ended December 31, 2005

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income for the year | 3,355 | 3,176 |
| Items not affecting cash | | |
| Depreciation and amortization | 1,095 | 1,147 |
| Provision for doubtful securities | — | 30 |
| Provision for income taxes | 695 | 709 |
| | 5,145 | 5,062 |
| Net change in receivables, prepaid expenses, inventories and accounts payable | (217) | (242) |
| | 4,928 | 4,820 |
| **Investing activities** | | |
| Increase in liquidity pool securities maturing after three months | (383,150) | (129,827) |
| Increase in intermediation pool | (106,614) | (16,161) |
| Acquisition of capital assets — net of disposals | (2,853) | (551) |
| | (492,617) | (146,539) |
| **Financing activities** | | |
| Increase in members' deposits | 111,935 | 86,286 |
| Increase (decrease) in share capital (note 5) | (7,809) | 21,684 |
| Dividends | (3,253) | (3,345) |
| | 100,873 | 104,625 |
| **Decrease in cash and cash equivalents** | (386,816) | (37,094) |
| **Cash and cash equivalents — Beginning of year** | 387,467 | 424,561 |
| **Cash and cash equivalents — End of year** | 651 | 387,467 |
| **Cash and cash equivalents consist of** | | |
| Cash (overdraft) | (21,478) | 9,523 |
| Liquidity pool securities maturing within three months | 22,129 | 377,944 |
| | 651 | 387,467 |
| **Liquidity pool consists of** | | |
| Cash and cash equivalents, as above | 651 | 387,467 |
| Liquidity pool securities maturing after three months | 1,267,550 | 884,400 |
| | 1,268,201 | 1,271,867 |

## 1 Significant accounting policies

These financial statements have been prepared in accordance with the Co-operative Credit Associations Act, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"). No such specifications have been made by the Superintendent, and the significant accounting policies used in the preparation of these financial statements are summarized below.

### VALUATION

**a. Liquidity pool**

These investments are carried at cost or amortized cost.

The Organization engages in the back-to-back sale and purchase of liquidity pool investments to enhance yield. Gains and losses on the disposition of investments are deferred and amortized to income over the lesser of the remaining term to maturity of the original investment or the replacement investment. In undertaking these transactions, there is no material difference in the term to maturity of the original and replacement investments.

The Organization engages in the simultaneous purchase and sale of non-portfolio investments. The gain on these transactions is recognized as income at the time of settlement.

Losses resulting from the disposition of liquidity pool investments that are undertaken as a result of significant deterioration in the credit worthiness of the investee are recognized immediately.



**b. Intermediation pool and service related**

Other than as noted below, these investments are carried at cost or amortized cost.

***Equity accounting***

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investment. The book value of the investment is adjusted for the share of earnings (loss) and distributions received from the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary.

Celero Solutions ("Celero") is an unincorporated venture that provides information technology services to the venture participants (owners), credit unions and other organizations. Pursuant to the venture agreement, the Organization has a 25.3% ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services.

The Organization's share of Celero's operating income or loss is based upon the business lines that it contributed to the venture and its ownership interest in operating results that are not directly related to the business lines.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's operating income. Conversely, should Celero incur a loss from operations, the Organization records offsetting revenue and an amount recoverable from members.

**c. Accrued interest**

Accrued interest receivable or payable is included with the corresponding principal balance.

### DERIVATIVE FINANCIAL INSTRUMENTS

**a. Interest rate swap agreements**

The Organization enters into interest rate swap agreements ("swaps" or "hedging items") in order to manage its exposure to changes in interest rates. Swaps are designated as hedges of the underlying related assets and liabilities (the "hedged items"). The hedging and hedged items are collectively designated as hedged transactions.

The interest differential to be received or paid under the hedging item is recognized as an adjustment to financial revenue or cost of funds.

In the event that a hedged transaction ceases to be effective, the Organization may continue to hold the hedging item at which time its fair value is determined. The resulting unrealized gain or loss is recognized in earnings on a basis consistent with that of the hedged item.

**b. Foreign exchange forward rate agreements**

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates. These agreements are marked to market at the financial reporting date.

**DEPRECIATION AND AMORTIZATION**

Depreciation and amortization are recorded annually by the Organization at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

| | |
|---|---|
| Technology and equipment | 3 to 5 years |
| Furniture | 5 to 10 years |
| Leasehold improvements | remaining term of the lease |

**INCOME TAXES**

The Organization follows the liability method of accounting for income taxes. Under the liability method, future income taxes result from temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The future income tax asset is computed at the tax rates that are expected to apply when the assets and liabilities are ultimately settled.

**USE OF ESTIMATES**



The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

## 2 Liquidity Pool

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| **Cash (overdraft)** | (21,478) | 9,523 |
| **Securities** | | |
| Governments | 100,540 | 70,276 |
| Banks and trust companies | 796,991 | 778,890 |
| Corporate | 393,148 | 414,178 |
| Non-specific provision for doubtful securities | (1,000) | (1,000) |
| | 1,268,201 | 1,271,867 |

The Organization serves as a source of liquidity for member credit unions. As such, all of the assets in the liquidity pool are readily convertible into cash.

## 3 Intermediation pool

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| **Member loans and investments** | | |
| Credit unions | 183,756 | 80,904 |
| Co-operatives | 1,555 | 2,721 |
| **Shares** | | |
| Credit Union Central of Canada | 3,591 | 3,327 |
| Co-operatives | 4,908 | 4,633 |
| **Mortgage and loan investments** | 714 | 1,017 |
| **Investment in Celero** | | |
| Loans receivable | 9,972 | 4,442 |
| Share of undistributed income (loss) | (276) | 562 |
| | 204,220 | 97,606 |

## 4 Service related assets

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| Technology and equipment, furniture and leasehold improvements including capitalized costs (note 7) | 9,336 | 6,553 |
| Accumulated depreciation and amortization | (3,790) | (2,765) |
| | 5,546 | 3,788 |
| Receivables | 3,619 | 944 |
| Prepaid expenses and inventories | 287 | 566 |
| Future income taxes (note 8) | 79 | 185 |
| | 9,531 | 5,483 |

Depreciation and amortization recorded during the year was $1,095,000 (2004 — $1,147,000).

## 5 Share capital

### AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued at $5 each.



### MEMBERSHIP

Every member of the Organization is required to own a minimum of two Class I shares.

Pursuant to the Organization's by-laws, Manitoba credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

### RIGHTS AND PRIVILEGES

At the discretion of the Organization's Directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

### ISSUED AND OUTSTANDING

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| Class I | | |
| Manitoba credit unions | 35,500 | 33,600 |
| Co-operatives | 1,228 | 1,237 |
| Class II | | |
| Manitoba credit unions | 42,600 | 52,300 |
| | 79,328 | 87,137 |

During the year, $1,953,000 (2004 — $4,712,000) of Class I shares and $3,224,000 (2004 — $20,058,000) of Class II shares were issued for cash consideration, and $62,000 (2004 — nil) of Class I shares and $12,924,000 (2004 — $3,086,000) of Class II shares were redeemed.

## 6 Related party transactions

The Organization and Celero provide various services to each other. During the year, the Organization's charges to Celero aggregated $2,306,000 (2004 — $1,560,000) and Celero's charges to the Organization aggregated $400,000 (2004 — $208,000). The net recovery from Celero of $1,906,000 (2004 — $1,352,000) is included in net operating expense (note 7).

Accounts receivable include $277,000 due from Celero (2004 — accounts payable included $46,000 due to Celero).

Interest charges to Celero were $233,000 (2004 — $178,000) for the year.

## 7 Net operating recovery

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| **Recoveries from members** | | |
| Clearing fees and other financial charges | 5,782 | 5,491 |
| Basic assessment | 3,447 | 3,384 |
| Fee for service | 1,616 | 1,989 |
| Liquidity management assessment | 659 | 615 |
| Patronage rebate — The Co-operators | 386 | 177 |
| Printing and supplies — net of cost of $1,061 (2004 — $1,073) | 377 | 338 |
| The Credit Union Deposit Guarantee Corporation fees | 252 | 187 |
| | 12,519 | 12,181 |
| **Operating expenses** | | |
| Personnel | 7,003 | 6,450 |
| Depreciation, amortization and leasing | 1,259 | 1,293 |
| National shared costs | 1,256 | 1,258 |
| Occupancy | 1,123 | 875 |
| Settlement costs | 913 | 846 |
| General | 587 | 319 |
| Professional services | 496 | 594 |
| Co-operative democracy | 433 | 393 |
| Hardware and software maintenance | 407 | 385 |
| Printing and supplies | 299 | 335 |
| Travel | 226 | 231 |
| Dues, grants and memberships | 209 | 163 |
| Telephone and computer telecommunications | 136 | 140 |
| Insurance and bonding | 109 | 95 |
| Postage and delivery | 102 | 93 |
| Provision for doubtful securities | — | 30 |
| Costs capitalized to service related assets (note 4) | (274) | — |
| Net recovery from Celero | (1,906) | (1,352) |
| | 12,378 | 12,148 |
| Net operating recovery | 141 | 33 |

# 8 Provision for income taxes

The Organization provides for income taxes at a rate of 18.1% (2004 — 18.1%) as determined below:

| shown as % | 2005 | 2004 |
|---|---|---|
| Federal base rate | 38.0 | 38.0 |
| Federal abatement | (10.0) | (10.0) |
| Additional deduction for credit unions | (16.0) | (16.0) |
| Federal surtax | 1.1 | 1.1 |
| Net federal tax rate | 13.1 | 13.1 |
| Provincial tax rate | 5.0 | 5.0 |
| | 18.1 | 18.1 |

The Organization provides for income taxes using the above rates as follows:

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| Income before income taxes | 4,050 | 3,885 |
| Non-taxable items | | |
| Dividends on Co-operative shares | (333) | (262) |
| All other adjustments | 100 | 162 |
| Accounting income for tax purposes | 3,817 | 3,785 |

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| Expected provision for income taxes at statutory rates | 691 | 685 |
| Other adjustments — net | 4 | 24 |
| Provision for income taxes on accounting income for tax purposes | 695 | 709 |
| Income tax savings on the payment of dividends | (589) | (605) |
| Provision for future income taxes | 106 | 104 |

Dividends charged against reserves are net of the foregoing related income tax savings of $589,000 (2004 — $605,000).

The significant components of the future tax asset in the balance sheet are:

| in thousands of dollars | 2005 | 2004 |
|---|---|---|
| Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes | (129) | (27) |
| Non-specific provision for doubtful securities | 176 | 181 |
| Provisions for expenditure not deductible for income tax purposes until paid | 32 | 31 |
| | 79 | 185 |

# 9 Directors' expenses

Directors received remuneration of $177,000 (2004 — $138,000) and expense reimbursement of $33,000 (2004 — $26,000).

## 10 Pension Plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2005 were $284,000 (2004 — $274,000). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

## 11 Commitments

The Organization currently leases office space under a lease agreement which expires in 2015 and has average annual payments of $1,035,000.

## 12 Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The Organization maintains liability insurance coverage for directors and officers.



## 13 Asset/Liability Management

The Organization has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk) and to movements in foreign exchange rates (referred to as foreign exchange risk). In the absence of these policies, the Organization's earnings would be impacted, either positively or negatively, as interest and exchange rates change. Additionally, the Organization is potentially exposed to financial loss resulting from the failure of a counter party to fully honour its financial or contractual obligations (referred to as credit risk).

The Organization also acts as an intermediary for its members in the management of interest rate risk and foreign exchange risk.

### a. INTEREST RATE RISK

One of the major sources of income for the Organization is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Organization's sensitivity to interest rate changes:

in thousands of dollars

| Interest repricing period | Interest sensitive | Not interest sensitive | Swaps | | Net asset/liability mis-match |
|---|---|---|---|---|---|
| | | | Receiving | Paying | |
| 0 to 6 months | (219,270) | (20,944) | 247,227 | — | 7,013 |
| 6 to 12 months | 7,894 | (6,736) | — | (8,351) | (7,193) |
| 1 to 2 years | 153,019 | (12,493) | — | (142,239) | (1,713) |
| 2 to 3 years | 73,996 | (29,506) | — | (42,303) | 2,187 |
| 3 to 4 years | 20,829 | (9,630) | — | (11,334) | (135) |
| 4 to 5 years | 49,901 | (7,060) | — | (43,000) | (159) |
| | 86,369 | (86,369) | 247,227 | (247,227) | — |

The average interest rate for interest-bearing assets is 3.64% and for interest-bearing liabilities is 3.38%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Organization has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counter party involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the credit unions. The credit risk associated with the index-linked agreements is the responsibility of the Organization.



**b. FOREIGN EXCHANGE RISK**

The Organization has assets and liabilities denominated in U.S. dollars. The Organization has established a policy to limit its exposure to changes in the U.S. exchange rate to prevent significant financial margin fluctuations.

The Organization enters into foreign exchange forward rate agreements for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counter party involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes.

As at December 31, 2005, the Organization has entered into foreign exchange forward rate agreements to buy U.S. dollars aggregating U.S. $42,121,000 and to sell U.S. dollars aggregating U.S. $6,936,000, inclusive of transactions with credit unions. The credit risk associated with these agreements is the responsibility of the Organization.

**c. CREDIT RISK**

The Organization's exposure to credit risk, represented by the cost to replace swap and foreign exchange forward rate agreements in the event of the failure of a counter party, is $2,822,647 as at December 31, 2005. The counter party for all such agreements is restricted to the major chartered banks and member credit unions, and therefore management considers the Organization's credit risk to be negligible.

## 14 Fair values of financial assets and liabilities

The following table presents the fair values of all financial assets and liabilities of the Organization. Differences between book value and fair value are caused by differences between the interest rate obtained at the time of the original investment or deposit and the current rate for the same product. Investments and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in current transactions between willing parties, the Organization normally holds all of its fixed term investments and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates, and may not be indicative of net realizable value.

The excess of the fair value of assets over book values represents an unrealized gain to the Organization. The excess of the fair value of liabilities and off balance sheet financial instruments over book values represents an unrealized loss to the Organization.

| in thousands of dollars | Book value | Fair value | Fair value greater than book value |
|---|---|---|---|
| **Assets** | | | |
| Liquidity pool | 1,268,201 | 1,272,958 | 4,757 |
| Intermediation pool | 204,220 | 204,434 | 214 |
| **Liabilities** | | | |
| Member deposits | 1,392,908 | 1,398,510 | 5,602 |
| Net swap agreements | — | 160 | 160 |

## 15 Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

# Dedicated to Serving Manitoba

***The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.***

## 40 FORTY YEARS

Gary Friesen CEO, Rosenort Credit Union

## 35 THIRTY-FIVE YEARS

Arnold Foidart Vice-President, Technology, Westoba Credit Union
Sara Schmidt Administrative Assistant, Crosstown Credit Union
Doug Wilton Director, Dufferin Credit Union

## 30 THIRTY YEARS

Marlene Bach Manager, Finance & Admin, Transcona Credit Union
Paul Burgoyne Manager of Examinations, CUDGC
Connie Clarke VP, Systems & Administration, Cambrian Credit Union
Debra Dutkewich Loans Officer, Oak Bank Credit Union
Kenton Eggleston General Manager, Amaranth Credit Union
Allen Friesen Loans Manager, Rosenort Credit Union
Shirley Hiebert Supervisor Clearing & Payments, Steinbach CU
Ila Higgins Member Service Supervisor, Dauphin Plains Credit Union
Herman Hoffman Director-Secretary, Amaranth Credit Union
Shirley Isford Loans Officer, Tiger Hills Credit Union
Ruth Jeanson Member Service Rep, Steinbach Credit Union
Donna Kelly Proof Clerk I, Credit Union Central of Manitoba
Kathy Lamont Loans Officer III, Westoba Credit Union
Al Morin CEO, Assiniboine Credit Union
Carol Turko Office Manager – Glenella, Beautiful Plains Credit Union
Susan Wilcox Administration Manager, Tiger Hills Credit Union

## 25 TWENTY-FIVE YEARS

Helen Alves Member Service Rep, Carpathia Credit Union
Deanna Baluk Manager, Member Service, Assiniboine Credit Union
Don Cataford Branch Manager, Westoba Credit Union
Debbie Clement Credit Analyst I, Credit Union Central
Norman Couture Commercial Acct Mgr, Vantis Credit Union
Audrey Dick Loans Secretary, Heartland Credit Union
Eleanor Dueck Member Service Rep, Assiniboine Credit Union
Richard Dyck General Manager, Dufferin Credit Union
Mel Edmunds Operations Manager, Swan Valley Credit Union
Judy Essay Senior Member Service Rep, Portage Credit Union
Ron Hedley General Manager, Dauphin Plains Credit Union
James Knockaert Loans Manager, Tiger Hills Credit Union
Marge Kuhl Member Service Supervisor, Heartland Credit Union
Cherie Lelond Executive Secretary, Westoba Credit Union
Nettie Lepage Loans Officer III, Westoba Credit Union
Ray McMurtry Mgr, Bus Development, Assiniboine Credit Union
Maria Melnyk Filing Clerk, Carpathia Credit Union
Garry Mitchell Vice-President, Finance, Assiniboine Credit Union
Shelley Porter Commercial Lending, Dauphin Plains Credit Union
Bill Saunders CEO, Credit Union Deposit Guarantee Corproation
Ruth Wiebe Management Consultant, Amaranth Credit Union
Ronalee Wood Member Service Rep, Westoba Credit Union

Beautiful Plains and South Interlake credit unions celebrated their 50th anniversaries in 2005

**Credit Union Central of Manitoba Limited**
Incorporated in 1950 by Statute of
the Province of Manitoba, Canada

**CREDIT SOCIETY / AGENT BANK**
Credit Union Central of Canada
Bank of Nova Scotia

**EXTERNAL AUDITORS**
PricewaterhouseCoopers LLP

**SOLICITORS**
PITBLADO LLP

**CONSULTING ECONOMISTS**
Dr. John Loxley
Dr. Brian Oleson

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