

Coastal Community
Credit Union

2005 ANNUAL REPORT

Building for Success

Building for Success

2005 was a pivotal year for Coastal Community Credit Union. On January 1, the much anticipated merger between Coastal Community Credit Union, Comox Valley Credit Union and Evergreen Savings Credit Union became a reality and today, together we are stronger.

The year was primarily one of preparing and laying the foundation for our new organization's future, with the goal of achieving long term stability and success for the Credit Union, members, communities and employees.

We recognize the success of our organization is driven by the commitment, attitude and professionalism of our employees. And in recognition of their ongoing dedication and enthusiastic efforts, we are pleased to feature photos of many employees throughout the report.

Our team accomplished a great deal in 2005 and we are looking forward to taking the next steps in building for our future.

Coastal Community Credit Union

2005 Annual Report

C O N T E N T S

Report from the Chair and Chief Executive Officer	2
Board of Directors	4
Operational Highlights	8
Community Leadership	17
Financial Results	20
Building for Success	22
Financial Statements	24
Corporate Directory	42

Our Vision

The best choice for financial and community leadership.

Our Mission

We provide quality financial solutions and unsurpassed service.

Our Values

Accountability:	We maintain the highest level of financial accountability to our members and clients.
Co-operation:	We work together in a fair, open and caring way for the benefit of those we serve.
Excellence:	We strive for excellence in all our work, from the processes we use to the professionalism of our employees.
Innovation:	We are an empowering organization that encourages innovative ideas.
Integrity:	We are honest, trustworthy, ethical and respectful in our relationships with everyone.
Responsiveness:	We are responsive to the needs of our members and clients, and the wellbeing of our communities.
Social Responsibility:	We are a good corporate citizen with socially responsible practices.

We recognize the success of our organization is driven by the commitment, attitude, and professionalism of our employees.





Report from the Chair and Chief Executive Officer

In 2005, we took a huge step forward in integrating our newly merged organization – a partnership that promises to provide strength and stability for the future.



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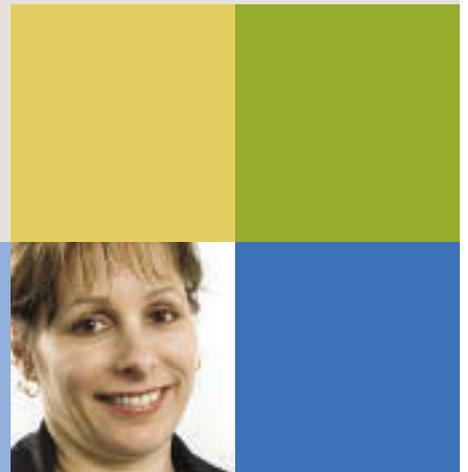
Garth Sheane
Chief Executive Officer

Douglas Lang
Chair, Board of Directors

Our priorities and activities during this first year as a new entity were focused heavily on building the foundation across all levels and divisions of our organization, to position ourselves to achieve our vision of being *the best choice for financial and community leadership*.

At the strategic level, the Board of Directors created a new Vision, Mission and Values statement, established a new governance model and developed a long term strategic direction for the organization.

Operationally, we focused first and foremost on our mission to provide *quality financial solutions and unsurpassed service* to our members and clients. In order to deliver the full benefits of the merger to members, communities and employees, we



also focused major attention on developing best practices plans to fully integrate our organization. While we began to harmonize some services, processes and programs in 2005, the majority of the implementation is planned for 2006.

We are very pleased to report that we have achieved what we had set out to, and have positioned ourselves for success in 2006 and beyond.

The following report highlights our accomplishments in 2005 and key initiatives for the near future. Interspersed through the report are profiles of individuals and groups that represent our key stakeholders – personal members, businesses, community organizations and employees. Look for the special features throughout the report.



Board of Directors

Creating a common vision and purpose is one of the critical first steps for success in a newly merged organization.



Board of Directors

Standing, left to right:

Ray Stokes, John Newall, Ron Philip, Richard Allen, Douglas Lang, Gail Preus, Judy Fraser, Bob Smits, Larry Hopwo, Dave Owen

Seated, left to right:

Cheryl Tellier, John Little, Richard Kerton, Evelyn Clark, Sharon Fisher, Susanne Jakobsen

As one of its top priorities in 2005, the Board of Directors approved a Vision, Mission and Values statement for our new organization that serves as the cornerstone for the Credit Union and its subsidiaries. With a focus on financial and community leadership, unsurpassed service, quality financial solutions, and cooperative and progressive values, the guiding statement will ensure we remain member-focused and community-centred as we build strength and stability for the long term.

The Board of Directors takes its fiduciary responsibilities very seriously and understands the importance of having clear and comprehensive governance guidelines. Within this context, another major priority for the Board of Directors in 2005 was the development of a thorough governance policy that clearly defines its roles and responsibilities. The final policy, which was approved in early 2006, is seen as one of the most forward-thinking governance policies in the Credit Union industry.

Solid progress was also made by the Board of Directors in establishing strategic principles that will guide the organization forward for the long term. Under direction of the Board of Directors, the executive team is charged with developing the full strategic plan for the organization in 2006.

In order to fulfill these significant achievements on top of its general oversight role, the Board of Directors was extremely active this past year through regular monthly meetings, special planning sessions and various committee work.

Some of the key committees in which members of the Board were active in fulfilling their roles and responsibilities are: Audit and Finance, Community Involvement, Conduct and Review, Governance, Investment and Lending, and Nominating.

As a result of the merger, the Board of Directors currently comprises sixteen members, with representatives from each of the founding Credit Unions to ensure a smooth transition to one organization. As set out in the Asset Transfer Agreements, the number of directors will be reduced to fifteen in 2006, and further reduced to twelve by 2008, in conjunction with annual director elections beginning in 2006.





Keith Martin,
Ucluelet Fire Chief and longtime
Coastal Community Credit Union member.

Building for Members

Building for Members

Keith Martin, a member of Coastal Community Credit Union's Ucluelet Branch, understands what it means to be committed to his community. Currently the Fire Chief for Ucluelet, Keith has volunteered with the local fire department since 1976, the same year that he chose to become a Credit Union member.

Coastal Community Credit Union shares the same strong sense of community as Keith. In support of this caring citizen's involvement in the community, the Ucluelet branch raised over \$3,000 last year, donating both time and funds, towards the purchase of a much needed truck for Ucluelet's Fire Rescue Unit.

Over the years, the Credit Union in Ucluelet has supported the Martin family with the right solutions to meet their financial needs. "You're not just a number at the Credit Union – you feel like, and are treated like, part of the family," shares Keith. In addition to meeting the Martins' personal banking needs, the Credit Union also fulfills the business banking needs for their computer repair company.

Being a Credit Union member in Ucluelet for 30 years, Keith has seen a number of changes over that time, including last year's tri-merger. He is quick to recognize one of the immediate benefits of the merger – how an expanded branch network throughout Vancouver Island is useful for those members traveling across the Island. According to Keith, even with the many changes he's seen, some things never change. "I continue to receive the same, great level of service today as I have over the past 30 years at my local Credit Union branch."

As Keith and his wife look ahead to their future, they know they can count on receiving continued personalized service and the right products and advice to meet their retirement needs. "We look forward to ongoing great service at Coastal Community Credit Union and have no reason to go elsewhere. As they've been there for me for the past 30 years, Coastal Community Credit Union will continue to be there, supporting my wife and me through our retirement years."

Operational Highlights

Operationally, many of our priorities in 2005 were focused on laying the foundation for our new organization and its future.

Building the foundation began with a new organizational structure designed to support our vision, strategies and plans. The structure incorporates more specialization of function, and a greater focus on all business lines, including Credit Union Retail and Commercial Services, Insurance, and Wealth Management. Also key to the new structure was the development of a distinct Community Investment department, as well as an Integration department that will lead the integration activities of the merger.

In 2005, our merger integration activities focused on establishing cross-functional teams, completing best practice research, and developing integration plans. We relied on the hard-working efforts of our leaders and employees to lay the foundation as we began to build for success.

Given the scope of work required, we determined to move forward with integration in two phases.

The first phase focuses on Credit Union Retail and Commercial Services, with large-scale integration projects being planned in 2005 and implemented in 2006. The second phase will focus on Insurance and Wealth Management divisions, with integration planning in 2006 and implementation in 2007.

An important cross-divisional initiative that began in 2005 was the development of a name and brand strategy for our new organization. During pre-merger Board discussions, the name Coastal Community Credit Union was selected for the short term, and a commitment was made to review and select a new name which would be aligned with the vision and strategies of the organization. This project is scheduled to be completed in 2006, and members will be actively involved as any name change must be met with membership approval.

The following provides additional highlights presented by the organizational division.

Credit Union Retail Services

The Credit Union Retail Services division represents the largest function of our organization and includes traditional personal financial services.

In 2005, we were committed to providing immediate merger benefits to our members by focusing on short term integration opportunities, and to building integration plans for longer term advantages.

One of our priorities early on was the expanded services made available to our members through inter-branch banking across our branch locations in fifteen communities. While we operated with three different banking systems and member databases, we implemented processes early on to facilitate member service through any location. In addition, members had access to an expanded ATM network immediately following the merger.

Over the year, we also began aligning some products and rates, and offered an improved range of products, services, and integrated solutions with our larger network of insurance and wealth management services.

One of the most important merger initiatives for the Credit Union is moving to one banking system, and we are pleased to report that a new banking system was selected through a best practices project in 2005. When implemented, the new system will centralize member data from the three separate banking systems, resulting in improved service to members for the long term. The conversion to the new banking system is planned for late 2006.

Another significant project for 2005 was the development of one consistent line of products and services to be offered through all locations.

In conjunction with the launch of the banking system, all products and services from the three legacy Credit Unions will be harmonized, and new products and services will be offered to meet member needs.

During 2005, we conducted a review of our branch locations. After careful consideration, a decision was made to close the Courtenay Braidwood Branch due to its location and the number of branches in the region. The move of accounts to the nearby Ryan Road Branch has met with positive member response, as additional services, including insurance and wealth management, were made available. We are pleased to report that employees were relocated to positions in other branches.

Customer service and member satisfaction are paramount to fulfilling Coastal Community Credit Union's mission of providing quality financial solutions and unsurpassed service. To ensure member needs were being met during this time of transition and to set benchmarks for the future, a member satisfaction survey was sent to 16,000 members to help identify operational strengths and areas for improvement. We are excited to report that the results of the survey were positive, rating Coastal Community Credit Union well above the industry average in the area of overall service satisfaction. This is an impressive accomplishment for our newly formed organization.

Our Credit Union Retail Services division is the cornerstone of our business, and we remain committed to building lifelong relationships with members by delivering trusted financial advice and solutions.



Darren and Teresa Hauca, *Communication Connection*
Vancouver Island business owners and happy
Coastal Community Credit Union members.

Building for Business

Building for Business

Darren Hauca, owner and president of Communication Connection knows what it's like to be treated as "just a number".

That's why he and his wife, Teresa, switched to Coastal Community Credit Union five years ago, when their chartered bank declined to invest in the growth of their Nanaimo business. Being a home-based business, Darren's plan required a larger home to accommodate the growing company.

"The people in the Nanaimo Business Centre at Coastal Community Credit Union saw our plan from a different perspective. They looked beyond the financials, and treated us as individuals, taking into account our character and our abilities. The Credit Union viewed our plan for expansion into a bigger home as positive – it meant the overhead would remain low while our business began to grow. The Credit Union agreed to support our new mortgage and we moved all of our accounts, including our personal banking."

With the move to a bigger home, the Haucas continued to grow their communications company to encompass all of Vancouver Island and most recently, the Lower Mainland. When the business needed to purchase a new van, the Credit Union was responsive, continuing to support its growth.

"They have been quick to respond to our needs as our business has grown. Whenever we need to, we deal with our account representative in the Business Centre – he always makes himself available. We like to do business face-to-face and build relationships with people – both professionally and personally. We like that Coastal Community Credit Union shares this philosophy."

Although the Haucas are extremely busy supporting their client's communication needs, they still make time to volunteer with minor sports in their community.

"Not only is Coastal Community Credit Union responsive to our business needs, like us, they too are a huge contributor to the communities they serve. We're glad that Coastal Community shares our value of giving back to our community – this is important to us."

The Haucas look forward to further expansion next year. "We are planning on building an office and will look to Coastal Community Credit Union to support our growing success."

Credit Union Commercial Services

Our Commercial Services division comprises of Credit Union services for businesses and organizations, including general accounts, investments, lending, and commercial mortgages.

Similar to our attention to personal members, our goal in 2005 was to provide immediate merger benefits to our business and organization members by focusing on both short term service enhancements and plans for longer term advantages.

Coastal Community Credit Union made some tangible improvements in our partnerships with small and medium sized businesses in 2005. As a larger organization we have more capacity and resources to support business members, and have been able to finance a greater range of projects. In order to support a strong Island economy we now have three Business Centres, which are in place in Nanaimo, Parksville and

Courtenay. We have also reached further with Commercial Account Managers in Campbell River and Port Hardy, covering a wide spectrum of business needs throughout Vancouver Island.

Over the past year, we also began to implement plans to expand our expertise and service offerings in other areas of interest to businesses, including cash management, insurance, investments, group RRSPs, and an enhanced online service.

In the area of general account services, a consistent line of business and organization accounts was developed in 2005, and will be implemented in conjunction with our banking system conversion in late 2006. We are pleased with the accomplishments and growth of our Commercial Services division and the strength that was achieved in 2005.



Insurance Services

Following the merger, our Insurance division now consists of four successful insurance agencies – Alder Insurance Services Ltd., Coastal Community Insurance Agencies Ltd., Community First Insurance Services Ltd. and Tuffrey & Mills Ltd.

Offering services through 19 office locations in 16 communities, the merger has expanded our insurance services and expertise to member and non-member clients across Vancouver Island.

Throughout 2005, our insurance agencies began working together at a strategic level, to create operational synergies. As a larger entity we have begun taking advantage of increased volume by negotiating better pricing from suppliers, and passing on these savings to clients.

As per our integration plans, additional benefits for clients will be realized as complete insurance integration plans are developed and implemented in the next two years.

At a community level, Chemainus members benefited from the addition of an ICBC auto license and expansion of insurance hours. As well, members on Gabriola Island will benefit from the expanded insurance services that are now available following the acquisition of Gabriola Agencies Ltd. that was initiated in 2005 by Coastal Community Insurance Agencies Ltd.

The Insurance division is strong and healthy, and is expected to maintain momentum as we continue to build for success.





Comox Valley Boys & Girls Club
participants with Executive Director,
Joseph Dunn.

Building for Communities

Building for Communities

In schools, church basements, indoors and out, across the Comox Valley, children are participating in exciting activities that provide opportunities for them to reach their full potential, thanks to the Comox Valley Boys & Girls Club.

Joseph Dunn, Executive Director of the local organization says, "The real focus is on children – providing positive reinforcement through strong bonds with other children and adult mentors. The programs offered through the Comox Valley Boys & Girls Club are diverse, ranging from garden clubs, to craft days, to kids in the kitchen making meals together."

Why has Coastal Community Credit Union been "the best" financial fit for the Boys & Girls Club? "They share our value of giving back to the community. Our organization is about responding to the needs of our community and supporting families within it. Their strong commitment to community is what makes Coastal Community Credit Union the best fit for us."

"Our connection with the Credit Union goes back over 10 years when we opened our organizational account with the former Comox Valley Credit Union. They were a key supporter of our annual golf marathon, which is our biggest fundraiser of the year and helps subsidize some of the programs

we offer. Community sponsorships are very important to us and are in place so that all children who wish to participate can do so, even if their family lacks the funds."

Last year's merger has created a much stronger capacity for Coastal Community Credit Union to support community needs. In 2005 the Credit Union became an even larger sponsor of the annual golf marathon, helping to raise over \$10,000. The Credit Union not only donated funds, its employees participated enthusiastically helping to make the event a huge success. Last year's golf marathon grew in size when employees of the Courtenay Fourth Street Branch challenged other branches to compete in the event. "Three teams came from some of the Nanaimo branches to help out and participate – it was great to see this type of friendly competition."

Looking forward to the future, the Club's Board of Directors is thrilled as the number of programs and participants has recently doubled. "It is important to the health of our organization to have the support of other organizations within our community, and Coastal Community Credit Union has been a leader, in both dollars and time commitment, to benefit children and families in our communities."

Wealth Management

Our Wealth Management division offers investment services through the Credit Union, as well as through the subsidiaries of Alder Insurance Services Ltd., Coastal Community Financial Management Inc., Community First Financial Planning, Comox Valley Rice Financial and Tuffrey & Mills Ltd.

In 2005, the Wealth Management subsidiaries began working under one broad umbrella, with a focus on expanding and integrating services where possible.

Over 2005, we reviewed our wealth management expertise across the market area, and expanded services in a number of communities. Our team of highly skilled investment professionals is now able to assist members in all locations to evaluate their financial needs and develop personalized plans through a complete range of investment vehicles.

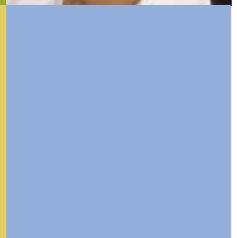
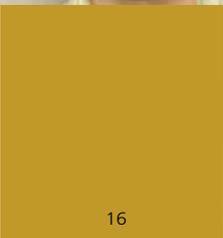
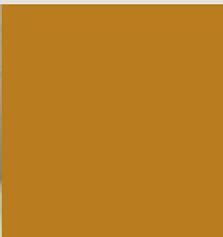
Our wide range of wealth management offerings now includes hundreds of mutual funds, stocks, bonds, and other securities. Services are offered both in a full service or online discount brokerage environment.

Throughout the year, our Wealth Management division has also focused on building synergies with the Credit Union Retail Services division to improve the overall level of service and solutions provided to members.

Members who took advantage of wealth management and financial planning services gave us some of the highest marks on the member satisfaction survey, which is a very encouraging result.

As per our integration schedule, full synergies among these subsidiaries and full benefits to members and clients, will be achieved over the next two years as complete integration plans are developed and implemented.

The Wealth Management division had an extremely positive year and we look forward to its continuing success.



Community Leadership

Our founding Credit Unions all shared the philosophy of providing strong community support, and this was brought forward as a solid commitment to our new organization. In recognition of this support, a Community Investment department was established, with a mandate to develop strategies and build programs that will help the Credit Union maximize its resources to the greatest benefit of all communities we serve.

As a new organization, one of our top priorities in 2005 was the creation of a new community involvement strategy that supports our vision of being a community leader.

Under direction of the Community Involvement Committee of the Board, this strategy was developed by management and approved by the Board of Directors late in 2005. Following the approval, programs designed to support the unique needs of our communities are being developed and will be implemented in 2006.

While the new strategy was being developed, our community involvement activities continued in full force last year. As part of our commitment to building strong and vibrant communities, we partnered with many organizations at local and regional levels. We supported groups that offer services in the areas of education, youth, community service, arts and culture, sports and recreation, the environment, and health. In fact, in 2005 with \$350,000 in funding, we helped over 400 Island organizations make a difference.

A particular focus of our support is helping youth in our communities through a variety of initiatives like Success by Six, Youth Entrepreneur Program, Choices, and the Wonderful World of Banking. We also introduced a new scholarship program for high school students in 2005, offering a total of eleven \$2,500 scholarships to youth. The new scholarship program invites grade eleven and twelve students to consider ways they can improve their communities.

Giving back to the community is a core value of our Credit Union, and one that is shared with our employees. We take great pride in supporting their volunteerism and fundraising efforts. In 2005 we expanded the Fundraising Fridays program and introduced a Matching Donation Program. This supports our employees in raising funds for charities that matter most to them, providing over \$6,000 for events such as the Relay for Life, the Boys & Girls Club, and the Mother-Daughter Walk for Breast Cancer. Other employee initiatives were also tremendously successful, including the fundraising program that raised over \$22,000 for the Nanaimo Regional Hospital Foundation.

Our continued support of our communities was a key commitment prior to the merger, and we are proud to have maintained our dedication through a number of strategies and programs to help build stronger and more vibrant communities on Vancouver Island.



Sharon Morton, Lynn Lidberg and Sabrina Pearce,
members of Coastal Community's Banking System
Conversion Team.

Building for Employees

Building for Employees

"Giving great member service is what makes us the best!", is a common theme voiced by Coastal Community Credit Union employees in all divisions, across all parts of Vancouver Island.

Coastal Community Credit Union employees, ranging from the Credit Union's Branch in Port Hardy to the Tuffrey & Mills Ltd. insurance location in Victoria, echoed familiar messages: "Customer service is what we're all about."

Janet, a new Member Service Representative who joined the Credit Union team just last quarter shares her perspective. "I was thrilled to come on board with Coastal Community because of my passion for customer service. This is what Coastal is all about and that's what I love – we are encouraged to spend time with members, making sure all of their needs are taken care of."

To many employees, members are like family. Says Josie, an employee for over 14 years, "We care – members are not just an account number. It is important we spend time with our members and make sure we're providing the right solutions to take care of all their financial needs."

Sabrina, a member of the banking system conversion team, says, "We're able to

deliver great service to members because of the positive way we are treated as employees. Coastal Community Credit Union is a great place to work – we are provided with resources and tools that allow us to deliver the best to members. "

Not only are Coastal Community employees well treated, they're also proud to work for the organization. Linda, a 19 year veteran adds, "I'm thrilled to be part of this great organization that gives back so much to the communities it serves. When I'm out in the community and tell people I work at Coastal Community, they share how the Credit Union has contributed to a local group they're part of."

Looking back on 2005, the banking system conversion team summed it up nicely, "With last year's merger we're getting the best of our three legacy Credit Unions: good ideas, better products, and best service."

Coastal Community employees are looking forward to growth in 2006, both in member relationships and in their careers. Janet, another experienced veteran put it well, "We are a family and our family is growing – both within the branches and within our membership. It's just a really nice environment to work in."

Financial Results

Coastal Community Credit Union has started to build for success through the partnership of three Credit Unions which resulted in an expanded community branch network. We now are well positioned to take advantage of future economic growth across Vancouver Island. The ability to protect the Credit Union from the impact of a downturn in a particular sector is a direct benefit from a diversity of community branches, each with unique local economies.

In 2005, total assets grew by \$67 million to end the year at more than \$1.2 billion. In addition, off-balance sheet assets such as mutual funds grew \$56.5 million to \$295 million. Total member deposits grew 5.5% and are approaching \$1.2 billion, while total net loans grew 9.4% to over \$1 billion. With increased capacity to meet the needs of our business members, commercial mortgages grew 65% to \$170 million.

Coastal Community Credit Union obtained the liquidity necessary to manage this growth by attracting member deposits, by selling investments, and by other operations. As long as the West Coast real estate market remains strong, Coastal Community Credit Union should continue to experience strong loan growth.

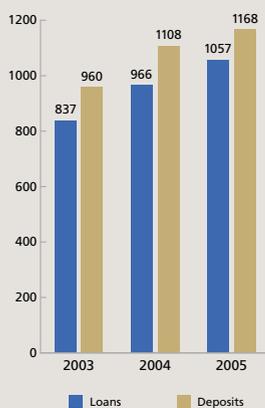
Typically, deposit growth follows as member relationships solidify, and this will bode well for our new Credit Union as we move forward.

The major sources of earnings were achieved from loans and subsidiary operations. Interest on existing and new loans increased our financial margin. Insurance and wealth management subsidiary commission (before expenses) grew 43% to \$9.5 million. Part of this growth was due to the purchase of Tuffrey & Mills Ltd., an insurance agency in Victoria, while part was due to higher mutual fund sales. Insurance and wealth management subsidiaries are expected to become increasingly more important to our future financial results.

Operating expenses in 2005 were close to \$49 million – up approximately 19% from 2004 – as Coastal Community Credit Union builds its capacity for the future. Much of this increase was due to salary and benefit costs as we work towards harmonizing staff compensation and benefits across the legacy Credit Unions. Increases in expenses also occurred in premises and equipment, advertising and member relations, and professional services.

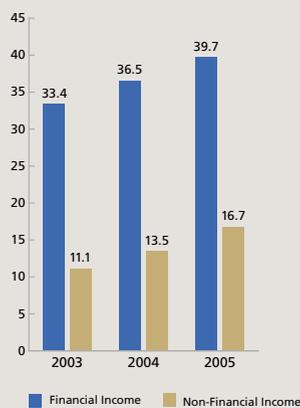
Loans and Deposits

In Millions of Dollars



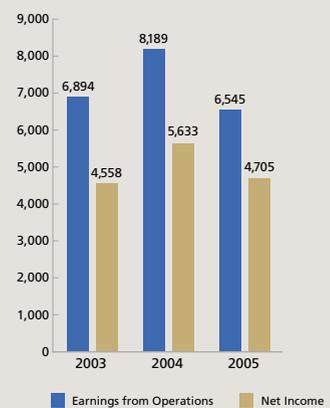
Financial Income & Non-Financial Income

In Millions of Dollars



Earnings from Operations and Net Income

In Thousands of Dollars



Operating expenses are expected to remain relatively high through 2006 and 2007 as Coastal Community Credit Union completes the integration of the three legacy Credit Unions. Thereafter, operating expense as a percentage of average assets should stabilize and begin to decline as we continue to reap the benefits of the merger and its expanded branch network. Coastal Community is investing now to improve profitability and capital for the future.

In 2005, earnings from operations ended at \$6.5 million, representing a 49 basis point return on average assets, while net earnings were about \$4.7 million. Distribution to members through dividends was approximately \$400,000. Coastal Community Credit Union is committed to growing and sharing its earnings, and has strategically positioned itself for long term success.

Our Credit Union's retained earnings are approximately \$51 million. At December 31, 2005, Coastal Community had a capital ratio in excess of 11% – up from 2004 – and well above the prescribed minimum required capital ratio of 8%.

Coastal Community Credit Union is committed to managing the various risks of its businesses through Enterprise-wide Risk Management (ERM). ERM is a comprehensive process that goes beyond

the traditional areas of liquidity, credit and interest rate risks reported in the financial statements, and is being implemented as part of our fiduciary responsibility to members.

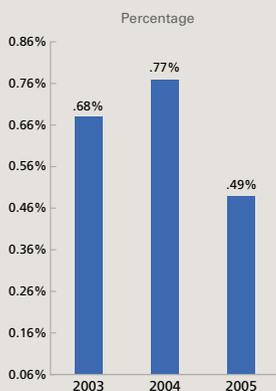
In accordance with provincial legislation, Credit Unions are required to maintain deposits with Credit Union Central of British Columbia totalling 9% of their deposits (net of equity and non-equity shares) and debt liabilities. At December 31, 2005, Coastal Community Credit Union's liquidity was 10.8%.

As of year-end, Coastal Community Credit Union's allowance for credit losses was \$7.2 million or 69 basis points of total loans – down from about \$7.4 million (75 basis points) in 2004.

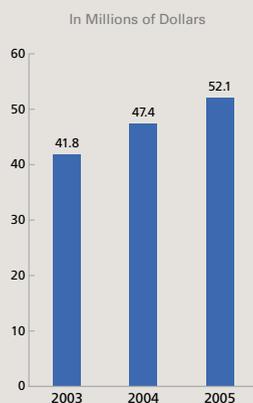
Coastal Community manages its interest rate exposure and use of derivatives through defined policies set by the Board of Directors. In 2005, the Credit Union maintained a relatively stable interest rate risk profile that is well within its policy limits.

The partnership of three Credit Unions became a reality at an opportune time and we are continuing to build for success. With a strong Island economy and responsible financial management in place, we achieved positive results in 2005. And, as we move forward, we are confident in our ability to further strengthen the financial position of our Credit Union.

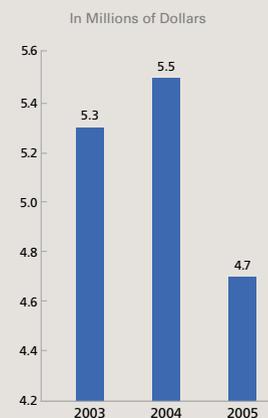
Return on Average Assets



Total Retained Earnings



Transfer to Retained Earnings



Building for Success

Our efforts in 2005 were focused on laying the foundation for our future success. With integration plans complete and consolidation activities underway, we are well on our way to achieving our vision of becoming *the best choice for financial and community leadership*.



Executive Team

Left to right:

Joe Cristiano
Senior Vice President, Marketing

Garth Sheane
Chief Executive Officer

Brenda Paul
Senior Vice President, Human Resources

Shelley McDade
Executive Vice President, Strategic Planning
and Integration

Paul Duncan
Senior Vice President, Finance

Sandra Miles
Executive Assistant to the Chief Executive Officer

Rob Grundison
Senior Vice President, Operations

As we reflect on the first year of operations as a newly formed Credit Union, we are pleased with the progress and encouraged by the accomplishments made in 2005 towards achieving long term stability and success for the Credit Union, its members, communities and employees.

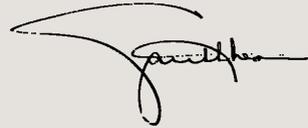
As with any successful venture, it takes the belief and commitment of many to bring a concept to reality. We would like to thank our members for their continuing support as we build for the future. We would also like to thank our employees who have played a key role in the success of the merger, and who will continue to play a vital role as we move through the next phases of integration.

2005 was focused on laying the foundation for our future success. With integration plans for the Credit Union complete and consolidation activities underway, we look forward to the implementation phase of many projects in the coming year. The more extensive projects, such as the banking system conversion, new products and services, and name change will have a positive and lasting impact on our organization. We are committed to keeping you informed and updated as we move through the implementation phase of these projects, and appreciate your continuing support.

With a clear vision, solid plans, a robust economy, and our continuing commitment to members, communities and employees - our future looks bright. With a strong foundation now in place, we are confident that we are well on our way to achieving our vision of becoming *the best choice for financial and community leadership*.



Douglas Lang
Chair, Board of Directors



Garth Sheane
Chief Executive Officer



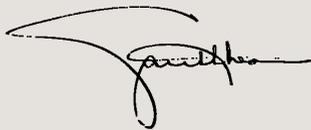
Financial Statements

Management's Report

The consolidated financial statements and other financial information in this annual report have been prepared by the management of Coastal Community Credit Union, which is responsible for their reliability, completeness and integrity. They were developed in accordance with requirements of the *Financial Institutions Act of British Columbia* and conform in all material respects with Canadian generally accepted accounting principles.

Systems of internal control and reporting procedures have been designed to provide reasonable assurance that the financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems include establishment and communication of standards of business conduct throughout all levels of the organization to provide assurance that all transactions are authorized and proper records maintained. Further, the systems of control are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the consolidated financial statements. The Audit and Finance Committee of the Board, has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. BDO Dunwoody LLP, the external auditors, have examined the Credit Union's consolidated financial statements and attached notes of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to employees of the Credit Union and the Audit and Finance Committee of the Board. Their report outlines the scope of their examination and their opinion.



Garth Sheane
Chief Executive Officer



Paul Duncan
Senior Vice President, Finance

Auditor's Statement

To the Members of Coastal Community Credit Union

We have audited the consolidated balance sheet of Coastal Community Credit Union as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union'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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 the Credit Union 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.

As set out in Note 1(a) to the financial statements, the comparative figures have not been subject to audit on a combined basis.



Chartered Accountants

Nanaimo, British Columbia

February 10, 2006

Consolidated Balance Sheet Coastal Community Credit Union

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Cash resources (note 4)	\$ 113,997,254	\$ 109,932,950
Loans (note 5)	1,056,618,782	965,533,444
Investments (note 7)	55,201,205	86,018,666
Premises and equipment, net of amortization (note 8)	20,940,397	17,969,778
Other assets (note 9)	8,229,784	8,745,277
	<u>\$1,254,987,422</u>	<u>\$1,188,200,115</u>
Liabilities		
Member deposits (note 10)	\$1,168,180,486	\$1,107,708,879
Short-term borrowings from Credit Union Central of British Columbia (note 11)	25,309,943	22,770,936
Accounts payable and accrued liabilities	9,428,814	10,356,927
	<u>1,202,919,243</u>	<u>1,140,836,742</u>
Members' equity		
Contributed surplus (note 23)	755,171	755,171
Retained earnings	51,313,008	46,608,202
	<u>\$1,254,987,422</u>	<u>\$1,188,200,115</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Douglas Lang
Chair, Board of Directors



Richard Kerton
Director

Consolidated Statement of Earnings and Retained Earnings Coastal Community Credit Union

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Financial income:		
Loans	\$57,398,477	\$53,210,566
Cash resources and investments	8,937,847	7,665,969
	66,336,324	60,876,535
Financial expense:		
Deposits	26,174,932	23,715,142
Borrowings	439,222	699,431
	26,614,154	24,414,573
Financial margin	39,722,170	36,461,962
Other income (expense):		
Other income (note 13)	21,376,318	18,093,154
Provision for credit losses, net of recoveries (note 5)	(932,810)	(731,764)
Other expenses (note 14)	(4,663,220)	(4,555,304)
	15,780,288	12,806,086
Operating margin	55,502,458	49,268,048
Operating expenses (note 15)	48,957,236	41,079,417
Earnings from operations	6,545,222	8,188,631
(Loss) gain on dispositions	(171,520)	205,557
Non-controlling interest	(268,829)	(184,752)
Distribution to members (note 16)	(403,846)	(1,220,514)
Earnings before income taxes	5,701,027	6,988,922
Income taxes (note 17)	996,221	1,356,138
Net earnings	4,704,806	5,632,784
Retained earnings, beginning of year	46,608,202	41,828,340
Merger costs	-	(852,922)
Retained earnings, end of year	\$51,313,008	\$46,608,202

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows Coastal Community Credit Union

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in)		
Operations:		
Net earnings	\$ 4,704,806	\$ 5,632,784
Merger costs	-	(852,922)
Items not involving cash:		
Amortization of premises and equipment	2,441,824	1,999,934
Loss (gain) on dispositions	171,520	(205,557)
Provision for loan losses	932,810	731,764
Future income taxes	(290,264)	252,004
Non-controlling interest	268,829	184,752
Change in non-cash operating working capital	(148,147)	2,160,458
	8,081,378	9,903,217
Financing:		
Deposits	60,471,607	78,456,654
Short-term borrowings	2,539,007	22,270,891
	63,010,614	100,727,545
Investments:		
Loans	(92,018,148)	(80,978,152)
Investments	30,574,423	(43,869,678)
Purchase of premises and equipment	(6,065,963)	(2,409,953)
Proceeds on dispositions	482,000	842,854
	(67,027,688)	(126,414,929)
Increase (decrease) in cash position	4,064,304	(15,784,167)
Cash resources received on acquisition, net of costs (note 23)	-	19,183,417
Cash resources, beginning of year	109,932,950	106,533,700
Cash resources, end of year	\$113,997,254	\$109,932,950
Supplemental Financial Information		
Interest received	\$ 66,555,913	\$ 58,376,285
Interest and dividends paid	26,632,350	23,740,423
Income taxes paid	1,399,071	1,421,927

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Coastal Community Credit Union

Year ended December 31, 2005

Coastal Community Credit Union ("Credit Union") is incorporated under the *British Columbia Credit Union Incorporation Act*. The operation of the Credit Union is subject to the *British Columbia Financial Institutions Act*. The Credit Union predominately serves members in the Vancouver Island area.

1. Significant accounting policies:

(a) Basis of presentation and comparative figures:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

Coastal Community Credit Union resulted from the merger of three Credit Unions: Comox Valley Credit Union, Evergreen Savings Credit Union and predecessor Coastal Community Credit Union. The merger completed immediately after midnight December 31, 2004. However, the comparative figures throughout these financial statements are presented on a pro-forma basis as if the merger had completed by midnight December 31, 2004. Certain of the comparative figures have been adjusted to conform with the current year's presentation. Each of the predecessor Credit Unions was audited by independent auditors but there was no audit opinion provided on the overall combined information.

The merger was accounted for using the pooling-of-interests method. Note 2 provides details of the comparative figures components by predecessor Credit Union.

(b) Principles of consolidation:

These consolidated financial statements include the assets, liabilities, and operating results of the Credit Union and its wholly-owned subsidiaries Coastal Community Financial Management Inc., Alder Insurance Services Ltd., Brylor Investments Ltd., Community First Insurance Services Ltd., Tuffrey & Mills Ltd., Comox Valley Rice Financial Ltd. and Comox Valley Financial Services Ltd. as well as 50% owned Coastal Community Insurance Agencies Ltd. ("CCIA") and 60% owned C.U. Technical and Administrative Services Corporation ("CUTASC"). The interest in CUTASC is accounted for on a proportionate consolidation basis.

(c) Use of estimates:

The preparation of the financial statements of the Credit Union in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions, mainly considering values, which affect reported amounts of assets, liabilities, net income, and related disclosures. Amounts are based on best estimates but actual amounts may vary from the amounts recorded. Areas subject to estimation include provisions for credit losses (because of the inherent subjectivity involved in estimating the amount and timing of future cashflows) and amortization of premises and equipment (because of the difficulty in estimating the useful lives of the assets), and provision for possible losses resulting from a class-action lawsuit (note 24).

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

1. Significant accounting policies (continued):

(d) Loans:

Loans to members are stated at the unpaid principal plus accrued interest less an allowance established to provide against potential losses on ultimate realization of the loan portfolio. The allowance is determined by reference to specific loans in arrears, prior loan collection experience, geographical concentration, economic conditions, and other factors, which in management's judgment deserves consideration. Loans considered uncollectible are written off.

(e) Investments and goodwill:

Investments are recorded at lower of cost or net realizable value. Goodwill reflects the excess of cost over the underlying tangible value of insurance subsidiary assets acquired. Goodwill is not amortized but is reviewed for potential impairment on an annual basis or if events or circumstances indicate a potential impairment at the reporting unit level. An impairment is recorded to the extent that the carrying value exceeds its implied fair value.

(f) Premises and equipment:

Premises and equipment are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over 3 to 20 years for furniture and equipment, 5 to 15 years for leasehold improvements, 25 to 40 years for buildings, and 3 to 5 years for computer equipment.

(g) Revenue recognition:

Interest income on loans is recorded on the accrual method, unless the loan is classified as impaired. A loan is considered as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal or interest, or when principal or interest is 180 days past due. Thereafter, interest income is recognized on a cash basis only after any specific provisions or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal.

Income received on prepayment or renegotiation of fixed term loans is recorded as earned income in the year it is received.

(h) Dividends:

Dividends on non-equity and equity shares and patronage rebates are charged against earnings.

(i) Derivative instruments:

Index-linked swaps are being used by the Credit Union to hedge risk for registered and non-registered term products linked to changes in various stock indexes. The notional principal related to these contracts is not included in the consolidated balance sheet.

Revenue and expenses from these contracts are deferred and amortized over the term of the swap contract provided that they meet the accounting standards for doing so. Other gains and losses on derivative financial instruments are recorded in earnings in the period incurred.

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

1. Significant accounting policies (continued):

(j) Income taxes:

The Credit Union follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the date of enactment or substantive enactment.

2. Pro-forma Information:

The assets and liabilities of the combined Credit Union at December 31, 2004 consist of:

	Coastal	Evergreen	Comox	Adjustment	Combined
Total assets	\$671,225,532	\$332,511,424	\$184,952,520	\$(489,361)	\$1,188,200,115
Total liabilities	645,604,279	315,860,370	179,372,093		1,140,836,742
Retained earnings	\$ 25,621,253	\$ 16,651,054	\$ 5,580,427	\$(489,361)	\$ 47,363,373

The results of operations of the combined Credit Union for the year ended December 31, 2004 consist of:

	Coastal	Evergreen	Comox	Adjustment	Combined
Financial income	\$34,981,134	\$16,613,487	\$ 9,281,914		\$60,876,535
Financial expense	(14,490,532)	(6,824,767)	(3,831,233)		(25,146,532)
Other income	10,360,066	5,604,236	2,128,852		18,093,154
Operating expenses	(25,597,036)	(13,527,196)	(6,510,294)		(45,634,526)
Gain (loss) —					
on dispositions	221,512	-	(15,955)		205,557
Non-controlling interest	(184,752)	-	-		(184,752)
Distributions	(1,085,084)	(46,271)	(89,159)		(1,220,514)
Income taxes	(748,209)	(331,845)	(198,323)	(77,761)	(1,356,138)
Net earnings	\$ 3,457,099	\$ 1,487,644	\$ 765,802	\$(77,761)	\$ 5,632,784

3. Capital requirements:

The *Financial Institutions Act* requires the Credit Union to maintain, at all times, a capital base adequate in relation to its level of business activities. The level of capital required is based on a prescribed percentage of the total value of its risk-weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

Effective January 1, 1994, the Financial Institutions Act regulations prescribed a minimum required capital ratio of 8% of the risk-weighted value of assets. At December 31, 2005, the Credit Union had a capital ratio in excess of 11%.

Notes to Consolidated Financial Statements

Coastal Community Credit Union

Year ended December 31, 2005

4. Cash resources:

	2005	2004
Cash on hand	\$ 9,219,692	\$ 9,732,257
Demand and short-term investments held at Credit Union Central of British Columbia	103,074,252	98,720,860
Accrued interest on cash resources	1,703,310	1,479,833
	\$113,997,254	\$109,932,950

In accordance with provincial legislation and the terms of arrangements with Credit Union Central of British Columbia, Credit Unions are required to maintain deposits with Credit Union Central of British Columbia totaling 9% of their deposits (net of equity and non-equity shares) and debt liabilities.

5. Loans:

An analysis of the Credit Union's loan portfolio, (net of allowance for credit losses by category), is as follows:

			2005	2004
	Gross amount	Allowance	Carrying amount	Carrying amount
Residential mortgages	\$ 682,494,649	\$ 177,372	\$682,317,277	\$646,102,387
Commercial mortgages	172,550,946	2,521,148	170,029,798	111,996,932
Personal and other loans	205,797,531	4,506,459	201,291,072	204,814,028
Accrued interest	2,980,635	-	2,980,635	2,620,097
Net loans	\$1,063,823,761	\$7,204,979	\$1,056,618,782	\$965,533,444

Analysis of allowance for credit losses	Residential mortgages	Commercial mortgages	Personal and other	Total 2005	Total 2004
Allowance for credit losses, beginning	\$825,761	\$1,123,379	\$5,496,402	\$7,445,542	\$3,579,342
Provision – Chemainus	-	-	-	-	5,210,285
Provision, net of recoveries	(460,632)	1,418,842	(25,400)	932,810	731,927
	365,129	2,542,221	5,471,002	8,378,352	9,521,554
Write-offs, less recoveries	187,757	21,073	964,542	1,173,372	2,076,012
Allowance for credit losses, ending	\$177,372	\$2,521,148	\$4,506,460	\$7,204,980	\$7,445,542
Allowance as a percentage of total loans				0.69%	0.75%

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

6. Securitized mortgages:

The Credit Union, as part of its program of managing liquidity, enters into arrangements to securitize mortgages through certain intermediaries.

These securitized mortgages, which are not included in the loan balances, matured during 2005. Balance of \$0 as at December 31, 2005 (2004 - \$107,035).

7. Investments:

	2005	2004
Statutory investments:		
Credit Union Central of British Columbia shares	\$ 4,170,992	\$ 4,106,543
Non-statutory investments:		
Mortgage packages purchased	30,348,454	36,841,417
Communities First Investment Fund	1,000,000	1,000,000
Federal and provincial government bonds market value \$13,404,000 (2004 – \$34,490,432)	13,959,445	35,916,548
Other investments	574,427	2,949,455
Goodwill, net of accumulated amortization	4,924,960	4,924,960
Accrued income on investments	222,927	279,743
	\$55,201,205	\$86,018,666

- (a) Shares in Credit Union Central of British Columbia are a required investment as a condition of membership in Credit Union Central of British Columbia and provincial legislation. This investment is determined based on the Credit Union's assets and is realizable only on withdrawal from membership.
- (b) Mortgages purchased have maturities in the range from 1 to 4 years with an average anticipated yield of between 4.41% and 5.70%.

8. Premises and equipment:

	2005		2004
	Cost	Accumulated amortization	Net book value
Land	\$2,712,329	\$ -	\$2,712,329
Buildings	11,271,882	3,599,388	7,672,494
Leasehold improvements	5,794,387	3,656,364	2,138,023
Furniture and equipment	10,171,538	7,625,635	2,545,903
Computer equipment	14,584,930	8,713,282	5,871,648
	\$44,535,066	\$23,594,669	\$20,940,397
			\$17,969,778

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

8. Premises and equipment (continued):

The Credit Union plans to implement a new banking system in 2006. Included in computer equipment is \$3,743,000 of cost related to this system. The new system will not be amortized until put in use in 2006. Also included in computer equipment is software and hardware with a net book value of \$ 1,041,000 related to banking systems of predecessor Credit Unions. These old systems will be amortized over the period until conversion to the new system.

There are commitments arising from both the acquisition of the new system and the change away from the old systems as outlined in note 12.

9. Other assets:

	2005	2004
Accounts receivable	\$5,336,544	\$4,693,997
Prepaid expenses	1,703,840	1,159,403
Receivable – land sale	320,000	480,000
Advance payments for data processing services	-	1,434,375
Property acquired in settlement of loans	56,649	232,453
Future income taxes	1,119,632	867,745
Non-controlling interest	(475,943)	(207,115)
Other	169,062	84,419
	\$ 8,229,784	\$8,745,277

The non-controlling interest consists of equity of CCIA held by a third party.

10. Member deposits:

	2005	2004
Demand	\$ 390,784,093	\$ 360,944,356
Term	531,219,617	506,079,429
Registered savings plans	226,123,760	220,912,911
Accrued interest on member deposits	10,634,920	9,916,862
	1,158,762,390	1,097,853,558
Non-equity shares:		
Non-voting, \$1 par value, unlimited number authorized	171,307	291,172
Equity shares:		
Membership equity shares, voting, \$1 par value, unlimited number authorized	6,023,741	6,360,438
Investment equity shares, non-voting, \$1 par value, unlimited number authorized	3,223,048	3,203,711
	\$1,168,180,486	\$1,107,708,879

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

10. Member deposits (continued):

Non-equity shares:

Amounts contributed by members for non-equity shares can be withdrawn on demand or redeemed by the Credit Union. The holders of these shares may be entitled to a life insurance policy of up to \$2,000 in accordance with the original purchase terms. The Credit Union has ceased issuance of these shares.

Equity shares:

The equity shares of the Credit Union are divided into two classes designated as membership equity shares and investment equity shares having the following rights and restrictions:

- Each member shall purchase not less than 5 and may purchase not more than 1,000 membership equity shares; a member may purchase a maximum of \$5,000 in investment equity shares; and, holding of non-equity shares is not restricted.
- Redemption of membership equity and investment shares is subject to certain conditions and to approval of the directors, subject to an overall restriction that the Credit Union may not be required to redeem in any financial year more than 10% of the total amount of such shares issued and outstanding on the last day of the preceding financial year.
- Dividends declared may, at the discretion of the directors, be different for each class of shares, and such dividends may be paid as an allocation of membership equity shares or non-equity shares.
- Equity shares are not insured by the Credit Union Deposit Insurance Corporation of British Columbia.

Deposit insurance protection:

The Credit Union Deposit Insurance Corporation of British Columbia, a government corporation, protects the deposits of all British Columbia Credit Union members up to a maximum of \$100,000 per "separate deposit" (as defined by Regulation) per credit union.

11. Credit facilities:

The Credit Union has an operating line of credit secured by a demand debenture in the amount of \$70,000,000 in favour of Credit Union Central of British Columbia. The debenture creates a floating charge on certain assets and undertakings of the Credit Union.

12. Commitments:

Computer services:

The agreement for use of the new banking system continues for 5 years from the date put in use with an automatic renewal for a further 5 years. Under the terms of this agreement the Credit Union is committed to paying the vendor for installation and related costs estimated at approximately \$600,000 as well as annual maintenance costs of approximately \$636,000 per annum. Installation and related costs will be capitalized and annual maintenance costs will be expensed in the period to which they relate.

Notes to Consolidated Financial Statements

Coastal Community Credit Union

Year ended December 31, 2005

12. Commitments (continued):

The Credit Union is also expected to incur approximately \$1,700,000 in costs related to exiting from the banking systems used by the predecessor Credit Unions. These costs will be expensed over the period until the new banking system is put into use.

Premises:

The Credit Union has committed to lease premises until 2011. The minimum lease payments, including estimated operating costs incorporated into lease agreements, in each of the next five years are \$1,859,648 in 2006, \$1,921,518 in 2007, \$1,933,621 in 2008, \$1,933,620 in 2009, and \$1,933,881 in 2010.

13. Other income:

	2005	2004
Member services:		
Chequing and savings accounts	\$ 4,585,617	\$ 4,347,637
Other service income	2,783,905	2,651,190
Insurance administration fees	1,001,434	1,199,476
Loan fees	1,517,196	1,078,031
Mortgage and prepayment income	1,316,123	1,548,063
Safety deposit boxes	243,271	233,572
	11,447,546	11,057,969
Building and property income	438,942	398,630
Commission income from subsidiaries	9,489,830	6,636,555
	\$21,376,318	\$18,093,154

14. Other expenses:

	2005	2004
Electronic services	\$1,346,626	\$1,238,149
Automated teller machine services	483,192	629,338
Other services	1,706,018	1,688,325
Chequing services	1,127,384	999,492
	\$4,663,220	\$4,555,304

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

15. Operating expenses:

	2005	2004
Salaries and benefits	\$29,999,800	\$23,638,240
Premises and equipment	3,685,762	3,565,281
Other administrative	4,933,376	5,403,605
Data processing	3,871,527	3,521,696
Amortization of premises and equipment	2,441,824	1,999,934
Advertising and member relations	1,621,347	1,152,690
Professional services	1,354,769	906,038
Regulatory costs	539,378	404,535
Capital taxes	509,453	394,694
Non-direct merger costs	-	92,704
	\$48,957,236	\$41,079,417

16. Distribution to members:

	2005	2004
Dividends on equity shares	\$445,682	\$ 388,825
Dividends on non-equity shares	1,431	5,225
Patronage rebate	(43,267)	826,464
	\$403,846	\$1,220,514

17. Income taxes:

(a) Components

	2005	2004
Current income taxes	\$967,010	\$1,104,134
Provision for current taxes	319,475	-
Future income taxes	(290,264)	252,004
	\$996,221	\$1,356,138

The Credit union received a non-taxable distribution from Stabilization Central Credit Union of British Columbia of approximately \$1.8 million which carries a risk of reassessment by the tax authorities. The Credit Union has provided for the full amount of tax that would result from reassessment as its best estimate of what will be demanded by the tax auditors. Should the tax authorities ultimately agree that any amount is not taxable the reversal will be recorded in the period that such a determination is made.

Notes to Consolidated Financial Statements
Coastal Community Credit Union

Year ended December 31, 2005

17. Income taxes (continued):

(b) Tax rates

	2005		2004	
	Amount	% Pretax Income	Amount	% Pretax Income
Combined statutory income tax rates	\$1,987,378	34.86 %	\$2,489,454	35.62 %
Reduction for credit unions and small business	(988,624)	(17.34)%	(1,258,006)	(18.00)%
Permanent differences	(219,254)	(3.85)%	88,178	1.26 %
Other permanent differences	14,047	.25 %	-	0.00 %
Other	202,674	3.56 %	36,512	0.52 %
	\$ 996,221	17.47 %	\$1,356,138	19.40 %

The Credit Union received a \$1.2 million non-taxable distribution from Stabilization Central Credit Union (in addition to the \$1.8 million non-taxable distribution referred to above). This distribution carries little risk of reassessment by the tax authorities and the Credit Union has treated the entire amount as non-taxable.

(c) Future income tax

The components of future income tax are as follows:

	2005	2004
Premises, equipment and intangibles	\$ 141,730	\$ 31,416
Allowance for loan losses	617,691	710,942
Other reserves	98,743	109,517
Other	261,468	15,870
	\$1,119,632	\$867,745

18. Employee future benefits:

The Credit Union contributes toward retirement benefits for its employees.

(a) Group registered retirement savings plan

The contributions made for the majority of employees are made to a group registered retirement savings plan at rates varying from 8% to 10% of annual salary. Contributions made during the year totaled \$1,495,648 (2004 – \$735,591). Employees contributed a total of \$579,330 (2004 – \$247,761) during the year.

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

18. Employee future benefits (continued):

(b) Multi-employer defined benefit pension plan

A multi-employer defined benefit pension plan exists where the members are employees from various Credit Unions in British Columbia. Contributions totaling \$198,584 (2004 – \$219,422) were made to this plan during the year on behalf of certain employees.

The plan is a defined benefit pension plan and is subject to actuarial review every three years. The latest available actuarial review is for December 31, 2003. As of the December 31, 2003 valuation, plan assets exceeded plan liabilities by approximately \$7,994,000. The actuary does not attribute portions of the plan surplus to individual employers. The Credit Union records contributions to the plan as an expense in the year which payments are made.

(c) Individual pension plans

Individual pension plans are maintained for certain employees. The plans generally have the characteristics of a defined contribution plan. Contributions made to these plans during the year totaled \$455,583 (2004 – \$64,195) and by the employees totaled \$79,583 (2004 – \$31,993).

19. Other information:

At December 31, 2005 loans to directors, officers, management and members of a committee of the Credit Union amounted to \$13,033,715 (2004 – \$10,298,303).

Directors received remuneration of \$258,513 in 2005 (2004 – \$219,124).

20. Derivative financial instruments:

Interest rate swaps are being used by the Credit Union to increase the maturity structure of the asset base to better align rate sensitivity to the overall liability base. The notional value of \$161,000,000 (2004 – \$122,500,000) related to the contracts in place at December 31, 2005, is not included in the balance sheet. Interest earned on these swaps is being accrued over the term of the swap.

In the opinion of management and in accordance with capital adequacy guidelines issued by the provincial government, the credit risk inherent with this item is considered to be insignificant.

Notes to Consolidated Financial Statements

Coastal Community Credit Union

Year ended December 31, 2005

21. Fair value of financial instruments:

	2005	2004
Balance sheet		
Assets		
Cash resources	\$ 113,834,000	\$ 111,621,808
Loans	1,056,026,000	977,137,635
Investments	54,318,000	86,944,944
Other assets	8,229,784	8,101,417
Liabilities		
Member deposits	1,168,693,000	1,111,565,794
Short-term borrowings from Credit Union		
Central of British Columbia	25,309,943	22,770,936
Accounts payable and accrued liabilities	9,428,814	10,356,927
Swaps, net	1,589,000	1,702,000

The fair value of items that are highly liquid or short-term in nature approximates their carrying value; such items include certain cash resources, investments, other assets, and other liabilities. The fair value of loans and member deposits with fixed rates is estimated using discounted cash flow models with discount rates based on market interest rates for similar types of instruments. The fair value of loans and member deposits with variable rates of interest approximates their carrying value.

The fair values of loans, investments, member deposits, and derivative financial instruments are determined from estimates of their net proceeds of disposal. As the estimates are affected by changes in the financial markets, the fair values will have changed subsequent to the year end.

22. Interest rate sensitivity position:

The repricing of the Credit Union's interest-sensitive financial assets and liabilities and their average effective interest rates, based on contractual maturity dates, is as follows (in thousands of dollars):

	2006		Repricing period 2007/2008		>=2009		Non-Rate Sensitive	Total	Rate
	Principal	Rate	Principal	Rate	Principal	Rate			
Assets									
Cash resources	\$ 50,050	2.99%	\$ 51,682	4.20%	\$ 12,265	3.75%	\$ -	\$ 113,997	3.54%
Loans	386,331	5.85%	66,124	5.75%	603,843	5.73%	321	1,056,619	5.77%
Investments	8,626	5.75%	28,508	4.92%	12,442	3.75%	5,625	55,201	4.48%
Other assets	-	-	-	-	-	-	29,170	29,170	-
	\$445,007	5.53%	\$146,314	4.98%	\$628,550	5.65%	\$35,116	\$1,254,987	5.37%
Liabilities									
Member deposits	\$398,967	2.79%	\$265,421	3.11%	\$380,466	0.67%	\$123,326	\$1,168,180	1.88%
Other liabilities	25,310	3.53%	-	-	-	-	9,429	34,739	2.57%
Equity	-	-	-	-	-	-	52,068	52,068	-
	\$424,277	2.83%	\$265,421	3.11%	\$380,466	0.67%	\$184,823	\$1,254,987	1.82%
Swaps	(94,500)		94,500				-		
Net Mismatch	\$(73,770)		\$(24,607)		\$248,084		\$(149,707)		

Notes to Consolidated Financial Statements Coastal Community Credit Union

Year ended December 31, 2005

23. Acquisition of Chemainus Credit Union:

On July 31, 2004, the Credit Union acquired 100% of Chemainus Credit Union. The Chemainus Credit Union operated within the community of Chemainus on Vancouver Island. Under the terms of the agreement, the Credit Union acquired all assets of Chemainus Credit Union in exchange for the assumption of debt and exchange of membership shares. The transaction was accounted for using the purchase method.

The following shows the allocation of the purchase price:

Loans	\$53,375,108
Loan provisions	(5,210,448)
Cash resources	19,440,117
Investments	341,180
Premises and equipment	891,335
Other assets	738,080
Future income taxes	755,171
Total assets acquired	<u>70,330,543</u>
Member deposits	69,191,878
Other liabilities	<u>126,794</u>
Total liabilities acquired	<u>69,318,672</u>
Excess of value of assets acquired over liabilities	1,011,871
Professional fees and other acquisition costs	<u>(256,700)</u>
	<u>\$ 755,171</u>

The excess of the value of assets acquired over liabilities has been credited to contributed surplus. Chemainus Credit Union ceased operations immediately subsequent to the acquisition.

Stabilization Central Credit Union of British Columbia has provided certain guarantees related to loan performance and other matters.

24. Contingent liabilities:

Class-action lawsuit

A class-action lawsuit has been instigated against several British Columbia Credit Unions in respect of alleged excess overdraft charges. The Credit Union has been named in this suit.

The Credit Union strongly disputes any wrongdoing in this matter, but the financial statements do include a provision against possible loss. Should this provision turn out to be overstated or understated, it will be adjusted in the year additional information becomes available.

ADMINISTRATION

Nanaimo Head Office

#21 - 13 Victoria Crescent
Nanaimo, BC V9R 5B9
Phone: (250) 741-3200
Toll-free: 1-888-741-1010

Campbell River Regional Centre

920 Alder Street
Campbell River, BC V9W 2P8
Phone: (250) 286-3243
Toll-free: 1-888-517-1133

Comox Regional Centre

#305 - 1797 Comox Ave.
Comox, BC V9M 3L9
Phone: (250) 703-4100
Toll-free: 1-800-532-8686

Website:

www.cccu.ca

Email:

service@cccu.ca

CREDIT UNION COMMUNITY BRANCHES

Alert Bay

30 Maple Street
(250) 974-5527

Campbell River

Discovery Harbour
1354 Island Hwy.
(250) 286-6205

Willow Point

#1 - 2204 S. Island Hwy.
(250) 923-0862

Chemainus

9781 Willow Street
(250) 246-4704

Comox

#202 - 1797 Comox Ave.
(250) 703-4100

Courtenay

4th Street
291 4th Street
(250) 703-4100

Ryan Road

1045 Ryan Road
(250) 703-4100

Gabriola Island

#7 - 580 North Road
(250) 247-8521

Nanaimo

Bowen
2350 Labieux Road
(250) 729-2550

Hammond Bay

6365 Hammond Bay Rd.
(250) 390-8900

Harbourfront

#111 - 59 Wharf Street
(250) 741-3100

Southgate

#111 - 50 Tenth Street
(250) 741-1233

Nanoose Bay

#2 - 2451 Collins Cres.
(250) 468-7624

Parksville

Parkville
140 Alberni Hwy.
(250) 248-3275

Wembley Mall

#16 - 826 West Island Hwy.
(250) 248-3293

Port Alberni

3009 Fourth Ave.
(250) 723-8101

Port Hardy

8755 Granville Street
(250) 949-7471

Qualicum Beach

118 West 2nd Ave.
(250) 752-9244

Sointula

185 1st Street
(250) 973-6723

Tofino

566 Campbell Street
(250) 725-2366

Ucluelet

1566 Peninsula Road
(250) 726-7785



BUSINESS CENTRES

Courtenay

1045 Ryan Road
Phone: (250) 703-4174

Nanaimo

2350 Labieux Road
Phone: (250) 729-2569

Parksville

126 Alberni Highway
Phone: (250) 951-2440

SUBSIDIARIES

Alder Insurance Services Ltd.

*Also providing wealth management services

Campbell River*

1354 Island Hwy.
(250) 286 - 1993

Port Hardy

8755 Granville Street
(250) 902-2626

Parksville*

#16 - 826 W. Island Hwy.
(250) 248 - 4351

Port McNeill*

1558 Broughton Boulevard
(250) 956-4437

Port Alberni

3550 Johnston Road
(250) 723-2918

Coastal Community Financial Management Inc.

Nanaimo

Bowen
2350 Labieux Road
(250) 729-2570

Hammond Bay

6365 Hammond Bay Rd.
(250) 390 - 8940

Harbourfront

#111 - 59 Wharf Street
(250) 741-3175

Southgate

#111 - 50 Tenth Street
(250) 741- 8600

Gabriola Island

580 North Road
(250) 247 - 8511

Nanoose Bay

#2 - 2451 Collins Cres.
(250) 468 - 9944

Parksville

140 Alberni Hwy.
(250) 248 - 5725

Qualicum Beach

120 West 2nd Avenue
(250) 752 - 3331

Coastal Community Insurance Agencies Ltd.

Nanaimo

Bowen
2350 Labieux Road
(250) 729 - 2570

Hammond Bay

6365 Hammond Bay Rd.
(250) 390 - 8940

Harbourfront

#111 - 59 Wharf Street
(250) 741-3175

Southgate

#111 - 50 Tenth Street
(250) 741- 8600

Chemainus

9781 Willow Street
(250) 246 - 5476

Gabriola Island

590 North Road
(250) 247 - 8511

Nanoose Bay

#2 - 2451 Collins Cres.
(250) 468 - 9944

Parksville

140 Alberni Hwy.
(250) 248 - 5725

Qualicum Beach

120 West 2nd Avenue
(250) 752 - 3331

Community First Financial Planning

Courtenay

291 4th Street
(250) 703-4129

Ryan Road

1045 Ryan Road
(250) 703-4178

Community First Insurance Services Ltd.

Courtenay

291 4th Street
(250) 703-4140

Ryan Road

1045 Ryan Road
(250) 703-4165

Comox

#201 - 1797 Comox Ave.
(250) 703 - 4201

Comox Valley Rice Financial

Providing insurance and wealth management services

Courtenay

480 C 6th Street
(250) 338-8713

Tuffrey & Mills Ltd.

Providing insurance and wealth management services

Victoria

762 Fort Street
(250) 386 - 7737



**COASTAL
COMMUNITY**
CREDIT UNION



Coastal Community
Credit Union

