



# First Quarter Report 2011

## REPORT TO MEMBERS

### CENTRAL 1 REPORTS STRONG RESULTS FOR FIRST QUARTER OF 2011

First quarter highlights compared to the same period last year:

- Central's Profit for the period of \$18.3 million, compared to \$7.5 million
- Central's return on equity of 12.6%, compared to 5.3%
- Central's assets of \$14.1 billion, up 2.9% from \$13.7 billion
- B.C. system<sup>(1)</sup> Net operating income<sup>(2)</sup> of \$106.1 million, versus \$100.3 million
- B.C. system assets of \$50.9 billion, up 7.8% from \$47.2 billion
- Ontario system<sup>(3)</sup> Net operating income<sup>(2)</sup> of \$43.8 million, versus \$29.4 million
- Ontario system assets of \$23.8 billion, up 8.7% from \$21.9 billion.

Central recorded Net financial income of \$27.2 million and Profit of \$18.3 million during the first quarter, compared to \$13.5 million and \$7.5 million respectively, during the same period last year. Central's Other income was \$23.9 million, an increase of \$0.2 million over the same period last year, while Operating expenses increased by \$1.3 million to \$30.0 million. Assets, at \$14.1 billion, increased 2.9% from \$13.7 billion as at March 31, 2010.

Global financial markets remained volatile in the first quarter of 2011 due to continuing political unrest in the Middle East and North Africa combined with the fallout from the earthquake in Japan.

In the United States, continuing challenges in the housing market, subdued payroll growth and planned cutbacks in government spending are all factors which represent a downside risk to growth.

Canada's economy surprised on the upside in the fourth quarter of 2010, posting GDP growth of 3.3 percent on an annualized basis led by growth in exports. 2011 also got off to a good start with jobs and output expanding. On the interest rate front, the Bank of Canada kept the overnight rate unchanged at 1.0 percent as inflation remained within the Bank's target range.

The yield curve for Canadian government bonds steepened as longer term yields increased with short term yields remaining relatively unchanged. Interest rate swap spreads widened while credit spreads were volatile during the period but ended the first quarter largely unchanged from year-end.

Volatility in global financial markets is expected to continue in the second quarter and beyond with the recent run up in the price of oil and rising commodity and food prices posing a threat to the global economic recovery.

The improvement in the larger Canadian economy was also reflected in B.C. and Ontario. Overall housing sales and prices saw increases, driven largely by increases in key metropolitan markets. January's rise in motor vehicles and parts manufacturing boosted employment in Ontario although overall growth in employment and consumer spending remained subdued in both provinces.

The B.C. system earned \$106.1 million before taxes, dividends and patronage refunds in the first quarter of 2011, up 5.8% from the \$100.3 million earned during the same period in 2010. Combined assets of the B.C. system in the same period rose 7.8%, year-over-year, to reach \$50.9 billion at quarter-end.

The Ontario system earned \$43.8 million before taxes, dividends and patronage refunds in the first quarter, up from the \$29.4 million during the same period in 2010. Combined assets of the Ontario system in the same period rose 8.7%, year-over-year, to reach \$23.8 billion at quarter-end.

- (1) These documents include statements about the credit union system in British Columbia, referred to as the B.C. system. B.C. system financial information has been provided by the Financial Institutions Commission of British Columbia (FICOM), which makes available reports on information provided by British Columbia credit unions. Central has no means of verifying the accuracy of information provided by credit unions to FICOM or FICOM's subsequent compilation of that information. Reference to system information should be interpreted in this context.
- (2) System Net operating income is equivalent to income from recurring operations and does not include extraordinary items, patronage dividends or income taxes.
- (3) These documents include statements about Central's member credit unions in Ontario, collectively referred to as the Ontario system. Ontario system financial information has been provided by the Deposit Insurance Corporation of Ontario (DICO), which makes available reports on information provided by Ontario credit unions. Central has no means of verifying the accuracy of information provided by credit unions to DICO or DICO's subsequent compilation of that information. Reference to system information should be interpreted in this context.

## **Management's Discussion and Analysis as at March 31, 2011**

This portion of the Report to Members updates Central's Management's Discussion and Analysis (MD&A) for the year ended December 31, 2010, and provides a discussion and analysis of Central's financial condition and results of operations for the three month period ended March 31, 2011, compared to the corresponding period in the preceding fiscal year. Additional information on Central, including its Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Effective January 1, 2011, Central adopted International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Except as otherwise indicated financial information for Central included in this MD&A has been prepared in accordance with Central's basis of presentation and its accounting policies as contained in Notes 2 and 3 of Central's interim consolidated financial statements.

Previously, Central had prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Information on the impact of the adoption of IFRS on Central's previously reported financial position and its results of operations can be found in the Transition to IFRS section below with further details provided in Note 4 of Central's interim consolidated financial statements.

Comparative information provided for the B.C. and Ontario credit union systems which were prepared under Canadian GAAP have not been restated. The adoption of IFRS allows entities to select certain accounting policies when more than one option is acceptable, or to make voluntary one-time transition elections. As such, certain transactions may not be accounted for consistently by all credit unions in the B.C. and Ontario credit union systems. Readers are cautioned to interpret the results of the B.C. and Ontario credit union systems in this context.

### **Caution Regarding Forward-Looking Statements**

From time to time, Central makes written and/or oral forward looking statements, including in this document, and in other communications. In addition, representatives of Central may make forward-looking statements orally to analysts, investors, the media and others. All such statements are intended to be forward-looking statements under applicable Canadian securities legislation.

Forward-looking statements, by their nature, require Central to make assumptions and are subject to inherent risk and uncertainties. Especially in light of the uncertainty related to the financial, economic and regulatory environments, such risks and uncertainties – many of which are beyond Centrals' control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Central's MD&A for the year ended December 31, 2010 provides information on risk factors to which Central is exposed including industry specific risks, credit, liquidity, market and operational risks. The adoption of IFRS has not resulted in material changes to Central's risk profile from that described in Central's MD&A for the year ended December 31, 2010. Central's IFRS financial statements include the financial results of subsidiary entities not previously consolidated under Canadian GAAP which have active insurance operations as described in Note 3r of the interim consolidated financial statements. Central's resulting exposure to insurance risk is not significant to its overall financial position.

Under IFRS, direct securitization transactions entered into prior to 2010 as described in Note 3g, which were off balance sheet under Canadian GAAP, are accounted for on balance sheet. Securitization accounting under IFRS differs significantly from Canadian GAAP; however the transition to IFRS does not alter the contractual cash flows on the underlying agreements.

Central has assessed these additional risk factors and updated its existing policies and procedures as described in its 2010 MD&A to reflect these changes. Further information is included in the Risk Management section below.

The foregoing list of risk factors is not intended to be exhaustive and other factors may adversely impact Central's results. Central does not undertake to update forward-looking statements except as required by securities legislation.

### **Overall Performance and Interim Financial Condition**

During the first quarter of 2011, Central recorded Profit of \$18.3 million or 11.0 cents per share, compared to \$7.5 million or 4.6 cents per share last year.

Net financial income was \$27.2 million compared with \$13.5 million posted in the first quarter of 2010.

During the quarter, the Canadian government bond yield curve steepened while interest rate swap spreads increased across the curve. Credit spreads were volatile during the period but ended the first quarter largely unchanged from year-end. Note 24 of Central's interim consolidated financial statements indicates that Central had net mark-to-market gains of \$2.3 million during the first quarter, compared to net losses of \$6.5 million the previous year. The steepening of the yield curve led to mark-to-market losses on held for trading securities, while the combination of the steepening yield curve and the widening of interest rate swap spreads resulted in mark-to-market gains on derivatives.

From time to time Central modifies its exposure to interest rates on fixed rate bonds by entering into interest rate swap contracts to create asset swapped positions. During the quarter, Central took advantage of favorable movements in credit spreads and reversed

some of these positions which contributed to the overall trading gains of \$12.1 million for the quarter.

Other income of \$23.9 million for the quarter was largely unchanged from the \$23.7 million earned in the first quarter of 2010. Note 25 of Central's interim consolidated financial statements provides details of the income earned in Central's various operating areas. Quarterly Operating expenses were \$30.0 million, compared to \$28.6 million incurred last year.

Central's financial condition remained sound in the first quarter and capital ratios remain well within statutory limits. Central's borrowing multiple increased from 15.7:1 at December 31, 2010 to 16.3:1 at quarter-end, reflecting an increase in deposits taken. At the quarter-end, Central's risk-weighted capital ratio was 32.5% compared to 33.4% at December 31, 2010.

### *B.C. System*

B.C. system net operating income for the quarter was \$106.1 million, compared to \$100.3 million for the first quarter of 2010. Non-financial income and expense increased by 7.9% and 6.1% respectively from the same period last year, and B.C. system financial margin increased by 5.4% or \$5.4 million year-over-year. The B.C. system's regulatory risk-weighted capital was 14.7% a slight increase from 14.4% a year ago.

Demand for loans accelerated, with total B.C. system net loans increasing by 8.4% year-over-year to reach \$42.8 billion while deposits grew by 5.2%. Asset growth was mainly concentrated in residential mortgages which grew by 10.6% from a year ago. B.C. system loan delinquencies over 90 days decreased to 0.69% of total loans compared to 0.77% a year ago. System provisions for credit losses as a percentage of average loans were 0.54% as of March 31, 2011, a slight decrease from 0.58% one year earlier.

Overall liquidity within the B.C. system, including that held by Central, was 13.2% of deposit and debt liabilities, up from 12.9% a year ago. Deposits with credit unions grew year-over-year by 5.2%, below loan growth of 8.4%. Holdings of liquid assets increased by 6.7% year-over-year, while borrowings from Central and other lenders decreased by 1.9%.

### *Ontario System*

Ontario system net operating income for the quarter was \$43.8 million, compared to \$29.4 million for the first quarter of 2010. Non-financial income increased by 24.3% from the same period last year, and non-financial expense increased by 17.3%. Ontario system financial margin increased by 22.2% or \$30.1 million, year-over-year. The Ontario system's regulatory risk-weighted capital was 13.0% up from 12.9% a year ago.

Demand for loans grew faster than deposits, as total Ontario system loans increased by 9.6% year-over-year to reach \$19.9 billion while deposits grew by 7.5% to \$20.9 billion. Residential mortgages grew by 14.8% from a year ago while Commercial loans grew by 6.1% in contrast to personal loans which fell by 4.0%, year-over-year.

Credit quality of loan portfolios remained stable over the past year as loan delinquencies over 90 days were largely unchanged at 0.82% at March 31, 2011 compared to 0.81% a year ago. System provisions for credit losses as a percentage of loans have decreased during the past year to 0.58% versus 0.60% for the same period last year.

Overall liquidity within the Ontario system, including that held by Central, was 12.9% of deposit and debt liabilities as of March 31, 2011, compared to 13.6% a year ago. Deposits with Ontario system credit unions grew year-over-year by 7.5%, while loan growth was 9.6%. Holdings of liquid assets increased 12.8% year-over-year while borrowings from Central and other lenders increased by 90.2%.

**Figure 1 - Selected Financial Information**

	<b>For the Three Months Ended</b>		
	<b>March 31</b>	<b>March 31</b>	<b>Difference</b>
	<b><u>2011</u></b>	<b><u>2010</u></b>	
<b>Earnings</b>			
Net financial income (\$ millions)	\$ 27.2	\$ 13.5	\$ 13.7
Net financial and other income (\$ millions)	51.1	37.3	13.8
Profit for the period (\$ millions)	18.3	7.5	10.8
Weighted average shares outstanding (\$ millions)	166.6	162.6	4.0
<b>Earnings per Share (cents)</b>			
Basic	11.0	4.6	6.4
Fully diluted	11.0	4.6	6.4
<b>Return on</b>			
Average assets	0.5%	0.2%	0.3%
Average equity	12.6%	5.3%	7.3%
<b>Balance Sheet Data (\$ billions)</b>			
Total assets	\$ 14.1	\$ 13.7	\$ 0.4
Average assets	14.0	13.7	0.3
Long term financial liabilities	6.6	6.4	0.2
<b>Regulatory Capital Ratios</b>			
Tier 1 capital ratio (Provincial)	21.6	22.8	(1.2)
Total capital ratio (Provincial)	32.5	35.3	(2.8)
Borrowing multiple (times)	16.3	16.7	(0.4)
<b>Share Information</b>			
Outstanding \$1 par value Shares (\$ thousands)			
Class A - credit unions	167,355	162,536	4,819
Class B - cooperatives	5	5	-
Class C - other	7	7	-
Outstanding \$0.01 par value Shares with redemption value of \$100 (\$ thousands)			
Class E - credit unions	32	32	-
Dividends per share (cents)			
Class "A", "B" and "C"	0.5	0.5	-
Class "E"	50.0	50.0	-

## **Total Revenues**

### Net Financial Income

Central earned Net financial income of \$27.2 million for the quarter, compared with \$13.5 million for the same period last year.

Interest margin, at \$12.8 million, decreased slightly from \$13.0 million in the first quarter of last year. As a percentage of average assets, Interest margin declined slightly from 38 basis points in the first quarter of 2010 to 37 basis points in the first quarter of 2011.

During the quarter, Central recorded net unrealized gains of \$2.3 million compared to a net loss of \$6.5 million during the same period last year. The steepening of the yield curve together with the increase in interest rate swap spreads in the first quarter led to mark to market gains on the derivatives portfolio. However, higher interest rates across the longer end of the curve resulted in mark-to-market losses on held for trading securities and mark-to-market gains on trading deposits over the quarter.

Realized gains on the sale of financial instruments increased during the period from \$7.0 million in 2010 to \$12.1 million for the period ended March 31, 2011 as Central took advantage of favorable movements in credit spreads to reverse some asset swap positions.

Taken together, Central recorded an overall gain of \$14.4 million on its trading assets and liabilities compared to \$0.5 million in the first quarter of 2010.

### Other Income

Other income of \$23.9 million for the quarter was largely unchanged from the \$23.7 million earned in the first quarter of 2010. Central's proportionate share of the income of its affiliates under the equity method of accounting decreased from \$0.7 million in 2010 to \$0.4 million during the first quarter of 2011. Income earned in Central's other operating areas increased slightly from \$23.0 million in the first quarter of 2010 to \$23.5 million for the three months ended March 31, 2011 with Treasury services increasing by \$0.4 million compared to 2010.

### Operating Expense

Operating expenses for the quarter increased to \$30.0 million from \$28.6 million last year. The increase is primarily attributable to increases in staff costs. Over the past year Central has increased its staff compliment to strengthen its financial reporting and compliance functions and to support the anticipated expansion of the suite of products and services it offers.

## Income Taxes

Note 26 to the Interim Consolidated Financial Statements summarizes the components of Central's income tax expense. Central's effective tax rate for the quarter was 13.4% compared to 13.7% for the same quarter in 2010.

## Statement of Financial Position

### Cash and Securities

Cash and securities were \$10.5 billion at period end. Of this amount, \$1.8 billion represents reinvestment assets which are designated to offset obligations under the Canada Mortgage Bond (CMB) program. The remaining balance of \$8.7 billion comprises the liquidity pool and represents 61.7% of Central's total assets, compared to \$8.1 billion and 59.3% a year ago.

The investment activity in Central's liquidity pool over the past 12 months continued to be conservative with investments made primarily in government debt (federal and provincial) and in senior bank debt (Figure 2).

**Figure 2 - Liquidity Pool (\$ millions - % total)**

	March 2011		March 2010		Dec 2010	
<b>Cash &amp; Liquid Securities</b>						
Government & Guarantees	\$ 3,783.2		\$ 4,584.3		\$ 3,967.4	
Cash	<u>170.7</u>		<u>106.4</u>		<u>121.3</u>	
	3,953.9	45.5%	4,690.7	58.1%	4,088.7	48.4%
Corporate & Major Financial Institutions R-1 (Mid) or Greater	4,600.5	53.0%	3,239.9	40.2%	4,206.4	49.8%
Corporate - R-1 (Low)	127.9	1.5%	137.5	1.7%	158.0	1.8%
<b>Total</b>	<u>\$ 8,682.3</u>	100.0%	<u>\$ 8,068.1</u>	100.0%	<u>\$ 8,453.1</u>	100.0%

### Loans

Loans, which are mainly secured loans to member credit unions, increased to \$1.4 billion from \$1.2 billion at the same time last year.

The total amount advanced under Central's non-credit union loan facilities as at March 31, 2011 was \$224.8 million, up from \$154.4 million in 2010, primarily due to reverse repurchase agreements which amounted to \$59.8 million as at 31 March 2011, compared to \$ 8.4 million a year ago. These loans represented 16.3% of Central's total loan portfolio at quarter-end, up from 12.7% a year ago.

## Borrowings

Figure 3 below summarizes Central's Total borrowings as at 31 March 2011 together with comparative numbers for the end of the first quarter in 2010.

Total Debt securities issued as at March 31, 2011 were \$0.6 billion, up \$0.1 billion from a year ago. Of the total amount outstanding as at March 31, 2011, \$225 million was borrowed under Central's Mid Term Note facility and the remainder was borrowed through Central's Commercial Paper facility.

Deposits from Central's member credit unions at \$8.3 billion as at March 31, 2011 increased from \$7.4 billion a year ago. Credit union statutory deposits grew by \$0.3 billion over the year, to reach \$5.0 billion at March 31, 2011, reflecting the growth of both the B.C. and the Ontario credit union systems during the same period. Non-statutory deposits from credit unions increased by \$0.7 billion over the past year, reflecting increased amounts of liquidity in the system.

Obligations related to assets sold under repurchase agreements were lower from a year ago at \$0.2 billion compared to \$1.0 billion at March 2010 primarily due to the repayment of obligations under the Bank of Canada's Purchase & Resale Agreements (PRA) facility.

### **Figure 3 - Borrowings (\$ millions)**

<b>Debt securities issued (\$ thousands)</b>	<b>March 2011</b>	<b>March 2010</b>	<b>Dec 2010</b>
Debt securities issued at amortized cost	\$ 603	\$ 459	\$ 621
<b>Deposits and Trading Liabilities by type (\$ thousands)</b>			
Statutory Liquidity	4,978	4,745	4,982
Excess Liquidity	3,362	2,676	3,231
Others	703	560	396
	<u>9,043</u>	<u>7,981</u>	<u>8,609</u>
Securities under repurchase agreements	<u>166</u>	<u>1,018</u>	<u>162</u>
Total Borrowings	<u><u>9,812</u></u>	<u><u>9,458</u></u>	<u><u>9,392</u></u>

## **Securitization Activities**

As the senior rated entity in the credit union system and in the normal course of business, Central is periodically involved in loan securitizations on behalf of member credit unions.

Member credit unions have securitized these loans either indirectly through Central via asset-backed commercial paper conduits (ABCP Conduits) sponsored by major Canadian bank-owned dealers or directly through Central by creating Government of Canada National Housing Authority (NHA) Mortgage Backed Securities (MBS).

For indirect securitizations, Central provides guarantees or acts as a swap counterparty to member credit unions but does not acquire legal title to the underlying mortgage assets. For direct securitizations, Central purchases the underlying mortgages from member credit unions. Central may retain the NHA MBS created in direct securitization transactions or sell them to Canada Housing Trust (CHT) under the CMB program.

Direct securitization transactions are accounted for on balance sheet while indirect securitizations are off balance sheet. Further information on these programs and related accounting policies is included in Note 3g of the interim consolidated financial statements. Details of the balances included in the statement of financial position as at period end can be found in Note 12 of the interim consolidated financial statements.

## Summary of Quarterly Results

Central's financial results for each of the last eight most recently completed quarters are summarized in the accompanying table (Figure 4). In general, Central's Net interest income has no discernable seasonal trend, and reflects the condition of prevailing financial markets. Non-interest income and non-interest expenses are generally consistent from quarter to quarter, although revenue from the technology and payments areas has a slight seasonal pattern, with fourth quarter revenue being approximately 5%-10% higher than that of the first quarter. Gains and losses on disposal of financial instruments and changes in fair value of financial instruments may also have a significant impact on quarterly Profit, but their timing and magnitude are not predictable.

**Figure 4 - Quarterly Earnings**  
(\$ thousands, except as indicated)

	2011/2010 Period Ended				2010/2009 Period Ended			
	30-Jun-10	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10
Total interest income	\$ 75,558	\$ 78,826	\$ 79,993	\$ 82,570	\$ 48,869	\$ 51,720	\$ 51,203	\$ 72,230
Total interest expense	61,821	65,732	67,620	69,764	32,382	30,807	32,001	59,216
Interest margin	13,737	13,094	12,373	12,806	16,487	20,913	19,202	13,014
Gain on disposal of financial instruments	5,278	17,522	14,163	12,125	8,487	6,948	4,029	7,032
Changes in fair value of financial instruments	(972)	(16,800)	5,523	2,256	28,894	18,956	(2,168)	(6,536)
Recovery (provision) of credit losses	15	(310)	(4,203)	12	(117)	54	(1,308)	93
Other income	24,894	24,188	26,855	23,871	21,614	22,126	23,062	23,686
Operating expenses	(32,548)	(29,887)	(33,422)	(29,922)	(26,895)	(27,479)	(29,719)	(28,642)
Income taxes	314	(638)	(3,007)	(2,833)	(7,009)	(5,986)	(1,894)	(1,175)
Profit for the period	<u>\$ 10,718</u>	<u>\$ 7,169</u>	<u>\$ 18,282</u>	<u>\$ 18,315</u>	<u>\$ 41,461</u>	<u>\$ 35,532</u>	<u>\$ 11,204</u>	<u>\$ 7,472</u>
Weighted average shares outstanding (millions)	162.6	162.6	163.4	166.6	162.6	162.6	162.6	162.6
Earnings per share								
Basic (cents)	6.6	4.4	11.2	11.0	25.5	21.9	6.9	4.6
Diluted (cents)	6.6	4.4	11.2	11.0	25.5	21.9	6.9	4.6

\* Earnings per share calculated for a central credit union must be taken in the context that member shares may not be traded or transferred.

\*\* Periods prior to 2010 are prepared under Canadian GAAP and have not been restated under IFRS.

## Capital Resources

Central's regulatory capital for both federal and provincial purposes remained at conservative levels and well in excess of both Central's target and provincial requirements. This reflects the high quality of Central's balance sheet and, hence, low risk weighting of securities in Central's liquidity portfolio.

Central's borrowing multiple for federal capital adequacy purposes was 16.3:1, up from 15.7:1 at December 2010 while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes decreased from 34.5% to 32.5% during the same period.

As of March 31, 2011, Central's federal Tier 1 Capital was \$566.5 million and total capital before deductions was \$771.5 million, compared to \$517.5 million and \$722.5 million, respectively, a year earlier. The increase in the total capital before deductions over the past year primarily reflects the growth in retained earnings.

Central's regulatory capital levels are determined according to both federal guidelines and provincial regulations. Central's federal capital adequacy borrowing multiple met regulatory requirements, as well as internal operating targets at March 31, 2011.

<b>Figure 5a - Capital Position (\$ thousands)</b>	<b>March 2011</b>	<b>March 2010</b>	<b>Dec 2010</b>
Share Capital	\$ 167,399	\$ 162,580	\$ 164,983
Contributed Surplus	87,901	87,901	87,901
Retained Earnings	311,183	267,061	295,147
Tier 1 Capital (Federal)	566,483	517,542	548,031
Tier 2 Capital (Federal)	204,977	204,977	204,977
Total Capital (Federal)	771,460	722,519	753,008
Statutory Capital Adjustments	(164,682)	(152,243)	(150,111)
Capital Base	\$ 606,778	\$ 570,276	\$ 602,897

<b>Figure 5b - Capital Targets</b>	<b>March 2011</b>	<b>March 2010</b>	<b>Target</b>	<b>Regulatory Requirement</b>
Total Capital as % of Risk-Weighted Assets (Prov)	32.5%	35.3%	11%-14%	> 10%
Borrowing Multiple	16.3:1	16.7:1	16.0:1-18.0:1	less than 20.0:1

\* The capital ratios (including prior periods) have been calculated using the revised regulatory guidelines which came into effect 1 January 2011.

## **Risk management**

This portion of the Report to Members should be read in conjunction with the Risk Management section of Central's 2010 MD&A.

### **Credit Risk**

The composition of Central's security portfolio is relatively unchanged from year-end as indicated above. Most of the portfolio is invested in senior bank debt and government debt. Details of Central's loan portfolio are found in Note 10 of the interim consolidated financial statements. Credit risk associated with Central's loans to its member credit unions is minimal because these loans are fully secured. Central has no previous history of losses on these loans.

Under IFRS, Central recognizes Reinvestment assets and Secured loans to members which were off balance sheet under Canadian GAAP. Reinvestment assets are subject to the investment criteria of the CMB and IMPP programs which limits holdings primarily to government issued debt and repurchase agreements with qualifying financial institutions. Details of Central's holdings of Reinvestment asset holdings are included in Note 12 of the interim consolidated financial statements. Secured loans to members are comprised of loans to credit unions secured by insured residential mortgages, and as such, credit risk on these balances is considered minimal.

### **Liquidity Risk**

Central's liquidity risk has not changed significantly during the quarter. Under IFRS, Central recognizes obligations related to securitization activities which were previously Off Balance Sheet. While this has resulted in an increase to Central's liabilities over those reported under Canadian GAAP, Central also recognizes Reinvestment assets and Secured loans to members in its Statement of financial position under IFRS, which assets are designated to satisfy these obligations as they come due.

### **Market Risk**

Central's interest rate risk policy defines standards and sets acceptable risks limits on Central's interest margin and the fair value of Central's net assets over a 12-month horizon. Those limits are based on an immediate and sustained +/- 200 basis point shift in the yield curve. The limit for fluctuations in interest income from the base forecast is 25% and the limit for changes in fair value of net assets from the base forecast is 20%.

The following table summarizes the pre-tax impact of a sustained 200 basis increase or decrease in interest rates on interest margin and fair value of Equity.

Before Tax Impact of:	(\$ thousands)			
	Interest Margin		Fair value of net assets	
	Amount	Percentage of Base Forecast	Amount	Percentage of Base Forecast
200 bp increase in rates	11,434	20.8	(51,726)	(8.0)
200 bp decrease in rates	(8,370)	(15.2)	58,705	9.1

## Central's Accounting Policies and Estimates

### Transition to IFRS

Central's Consolidated Interim Financial Statements, included in this Report to Members, have been prepared in accordance with International Financial Reporting Standards as described in Note 2 of the Interim Consolidated Financial Statements. A summary of the changes from Canadian GAAP to IFRS is provided below with additional details available in Note 4 of Central's interim consolidated financial statements.

### Introduction

Effective January 1, 2011, Central reports its financial results under IFRS. Accounting changes resulting from the transition to IFRS have generally been reflected in Central's opening IFRS consolidated statement of financial position on a retrospective basis. As such, most transactions which occurred prior to initial adoption of IFRS have been presented as though IFRS had always applied and adjustments for any differences between Canadian GAAP and IFRS have been reflected as an adjustment to opening retained earnings. Central's IFRS opening statement of financial position has been prepared as of January 1, 2010, which is the first day of Central's earliest comparative period presented in its interim and annual financial statements for the year ended December 31, 2011.

The transition from Canadian GAAP to IFRS is subject to the provisions contained in IFRS 1, *First-time Adoption of International Financial Reporting Standards*. There are several mandatory exemptions to the retrospective application of certain standards, and entities may elect to apply certain additional exemptions. There are also certain

discretionary exemptions available which Central has applied which had an impact on Central's IFRS opening retained earnings.

On adoption of IFRS, the impact of discretionary exemptions on Central's opening IFRS consolidated statement of financial position were as follows:

- Central elected to recognize any unamortized actuarial gains or losses pertaining to the measurement of its defined benefit plans in its IFRS opening retained earnings. As at January 1, 2010, Central had net unamortized actuarial gains of \$4.2 million (excluding taxes).
- Central elected to revalue its investment property such that its carrying value would be adjusted to its fair value on transition. The impact of applying this exemption as at January 1, 2010, was to increase IFRS opening retained earnings by \$5.8 million (excluding taxes).

Central also elected to apply certain other optional exemptions contained in IFRS 1 including those that relate to business combinations, insurance contracts, and employee benefits. However, these elections did not have a quantitative impact on Central's opening IFRS consolidated balance sheet since in most cases they provided relief from disclosure requirements that would otherwise be required beginning in 2011.

#### Summary of Key Differences on Date of Transition

The key differences between IFRS and Canadian GAAP that had an impact on Central includes the de-recognition of financial instruments (securitizations), measurement and recognition of employee future benefits, and consolidation of entities controlled by Central. The impact of accounting for these differences as at the date of transition to IFRS is summarized below:

##### i) Securitization

Under IFRS, mortgages transferred to CHT under the CMB program and CMHC under the IMPP programs, as described in Notes 4 (k) & 12 of Central's 2010 Consolidated financial statements, do not qualify for de-recognition. The impact of this change on Central's IFRS statement of financial position was to increase both assets and liabilities by \$3.28 billion, with a reduction in IFRS opening retained earnings of about \$4.0 million, excluding the impact of income taxes..

##### ii) Employee future benefits

On adoption of IFRS, Central reduced retained earnings by \$2.7 million (excluding taxes) to reflect the balance of unamortized plan amendments and unamortized changes in accounting policies which are were deferred under Canadian GAAP, but which may not be deferred under IFRS.

On adoption of IFRS, Central's accounting policy related to the amortization of actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation and plan assets was amended so that such amounts will be recognized immediately in Other comprehensive income. Previously, Central amortizes these gains and losses over the expected remaining service life of active plan members through net income.

iii) Consolidations

Under IFRS, CUPP Services Ltd., and Stabilization Fund Corporation are subsidiaries of Central and thus they have been consolidated. These entities were not consolidated under Canadian GAAP as they were considered Variable Interest Entities which were only consolidated if the parent had exposure to the majority of the losses or the rights to receive the majority of the returns. The impact of consolidated these entities on Central's opening IFRS retained earnings was not significant.

iv) Other differences

There are numerous additional presentation and disclosure differences between Canadian GAAP and IFRS which have not been summarized above. While these differences have resulted in Central's IFRS consolidated financial statements having a different "look and feel" from its Canadian GAAP consolidated financial statements, they have not had a significant impact on IFRS opening retained earnings. In aggregate, Central's retained earnings increased by \$4.4 million effective January 1, 2010 as a result of the transition to IFRS.

Summary of Key Differences for the three months ended March 31, 2010

Central's profit for the period ended March 31, 2010 under IFRS was \$7.5 million, which is \$4.4 million lower than the amount previously reported under Canadian GAAP. The impact of adopting the IFRS de-recognition standard accounted for \$4.2 million of this difference, with other Canadian GAAP to IFRS adjustments making up the difference.

The tables below (Figures 6a, 6b & 7) summarize the overall impact of the transition from Canadian GAAP to IFRS.

**Figure 6a - Central 1 IFRS vs CGAAP Reconciliation (\$ thousands)**

**31-Mar-10**

	CGAAP	Securitization	Non Securitization	IFRS
<b>Assets</b>				
Cash and cash equivalents	\$ 106,504		\$ (117)	\$ 106,387
Deposits with regulated financial institutions	142,772		5,154	147,926
Pledged trading assets			738,541	738,541
Reinvestment assets under the CMB and IMPP Programs		1,108,108	-	1,108,108
Non-pledged trading assets		(520,017)	3,774,480	3,254,463
Derivative assets		38,589	119,321	157,910
Loans	1,214,335	(1,137)	(1,209)	1,211,989
Investment securities	8,582,349	(48,244)	(4,500,802)	4,033,303
Secured loans to members		2,692,412	-	2,692,412
Current tax assets			13,560	13,560
Property and equipment	14,899		1,954	16,853
Intangible assets			3,545	3,545
Deferred tax assets		1,269	4,391	5,660
Investment in affiliates			124,317	124,317
Other	359,013		(255,626)	103,387
<b>Total Assets</b>	<b>10,419,872</b>	<b>3,270,980</b>	<b>27,509</b>	<b>13,718,361</b>
<b>Liabilities</b>				
Deposits designated as trading			2,123,097	2,123,097
Derivative liabilities			69,383	69,383
Debt securities issued	459,079		-	459,079
Deposits from members	7,995,542	(1,158)	(2,136,379)	5,858,005
Obligations under the CMB and IMPP Programs		3,279,742	-	3,279,742
Subordinated liabilities	202,634		-	202,634
Provisions			6,453	6,453
Securities under repurchase agreement	1,018,362		-	1,018,362
Deferred tax liabilities			3,769	3,769
Other	195,037		(68,669)	126,368
<b>Total Liabilities</b>	<b>9,870,654</b>	<b>3,278,584</b>	<b>(2,346)</b>	<b>13,146,892</b>
<b>Equity</b>				
Share capital	162,580		-	162,580
Contributed surplus	87,901		-	87,901
Retained earnings	271,893	(7,588)	7,737	272,042
Accumulated other comprehensive income	26,844	(16)	7,230	34,058
Reserves	-		6,516	6,516
<b>Total Equity Attributable To Equity Holders Of Central 1</b>	<b>549,218</b>	<b>(7,604)</b>	<b>21,483</b>	<b>563,097</b>
Non-controlling interest				8,372
<b>Total Equity</b>	<b>549,218</b>	<b>(7,604)</b>	<b>21,483</b>	<b>571,469</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 10,419,872</b>	<b>\$ 3,270,980</b>	<b>\$ 19,137</b>	<b>\$ 13,718,361</b>

**Figure 6b - Central 1 IFRS vs CGAAP Reconciliation (\$ thousands)**

**31-Dec-10**

	CGAAP	Securitization	Non Securitization	IFRS
<b>Assets</b>				
Cash and cash equivalents	\$ 121,337	-	\$ (43)	\$ 121,294
Deposits with regulated financial institutions	135,358	-	5,207	140,565
Pledged trading assets	-	-	160,747	160,747
Reinvestment assets under the CMB and IMPP Programs	-	1,643,986	-	1,643,986
Non-pledged trading assets	-	(338,616)	4,591,750	4,253,134
Derivative assets	-	72,697	56,399	129,096
Loans	1,110,286	-	(1,106)	1,109,180
Investment securities	8,740,182	(38,395)	(4,739,511)	3,962,276
Secured loans to members	-	1,929,850	-	1,929,850
Current tax assets	-	-	3,185	3,185
Property and equipment	15,088	-	2,001	17,089
Intangible assets	-	-	4,106	4,106
Deferred tax assets	-	1,488	4,233	5,721
Investment in affiliates	-	-	128,862	128,862
Other	253,331	-	(193,615)	59,716
<b>Total Assets</b>	<b>10,375,582</b>	<b>3,271,010</b>	<b>22,215</b>	<b>13,668,807</b>
<b>Liabilities</b>				
Deposits designated as trading	-	-	2,072,592	2,072,592
Derivative liabilities	-	-	80,123	80,123
Debt securities issued	620,524	-	-	620,524
Deposits from members	8,620,365	-	(2,084,451)	6,535,914
Obligations under the CMB and IMPP Programs	-	3,280,112	-	3,280,112
Subordinated liabilities	200,574	-	-	200,574
Provisions	-	-	6,453	6,453
Securities under repurchase agreement	162,358	-	-	162,358
Deferred tax liabilities	-	-	2,138	2,138
Other	195,539	-	(80,686)	114,853
<b>Total Liabilities</b>	<b>9,799,360</b>	<b>3,280,112</b>	<b>(3,831)</b>	<b>13,075,641</b>
<b>Equity</b>				
Share capital	164,983	-	-	164,983
Contributed surplus	87,901	-	-	87,901
Retained earnings	303,885	(8,609)	4,850	300,126
Accumulated other comprehensive income	19,453	(493)	7,230	26,190
Reserves	-	-	5,594	5,594
<b>Total Equity Attributable To Equity Holders Of Central 1</b>	<b>576,222</b>	<b>(9,102)</b>	<b>17,674</b>	<b>584,794</b>
Non-controlling interest	-	-	-	8,372
<b>Total Equity</b>	<b>576,222</b>	<b>(9,102)</b>	<b>17,674</b>	<b>593,166</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 10,375,582</b>	<b>\$ 3,271,010</b>	<b>\$ 13,843</b>	<b>\$ 13,668,807</b>

**Figure 7 - Central 1 IFRS vs CGAAP Statement of profit and loss reconciliation**  
**(\$ thousands)**

31-Mar-10

	CGAAP	Securitization	Non Securitization	IFRS
<b>Interest Income</b>				
Investments	\$ 43,006	\$ (5,675)	\$ 63	\$ 37,394
Deposits with regulated FI's	229		39	268
Loans	4,757		37	4,794
Secured loans and reinvestment assets		29,774	-	29,774
	<u>47,992</u>	<u>24,099</u>	<u>139</u>	<u>72,230</u>
<b>Interest Expense</b>				
Borrowed Funds	1,447		33	1,480
Deposit Interest	26,766		(37)	26,729
Subordinated debt	2,057		-	2,057
CMB Obligation		28,950	-	28,950
	<u>30,270</u>	<u>28,950</u>	<u>(4)</u>	<u>59,216</u>
<b>Interest margin</b>	17,722	(4,851)	143	13,014
Gain on disposal of financial instruments	7,032		-	7,032
Changes in fair value of financial instruments	(6,468)	(43)	(25)	(6,536)
	<u>18,286</u>	<u>(4,894)</u>	<u>118</u>	<u>13,510</u>
<b>Net financial income</b>				
Recovery of credit losses	(93)		-	(93)
	<u>18,379</u>	<u>(4,894)</u>	<u>118</u>	<u>13,603</u>
Other income	21,450		2,236	23,686
<b>Net financials and other Income</b>	<u>39,829</u>	<u>(4,894)</u>	<u>2,354</u>	<u>37,289</u>
<b>Operating expenses</b>				
Salaries and Benefits	13,144		48	13,192
Premises and equipment	2,174		70	2,244
Other administrative expenses	10,765		2,441	13,206
	<u>26,083</u>	<u>-</u>	<u>2,559</u>	<u>28,642</u>
<b>Profit before income taxes</b>	13,746	(4,894)	(205)	8,647
Income taxes	1,885	(700)	(10)	1,175
<b>Profit for the period</b>	<u>\$ 11,861</u>	<u>\$ (4,194)</u>	<u>\$ (195)</u>	<u>\$ 7,472</u>

## Critical Accounting Estimates

The critical accounting estimates are those disclosed in Note 5 to Central's interim consolidated financial statements.

## Controls and Procedures

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this Management's Discussion and Analysis, management evaluated Central's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Central's interim filings, as such term is defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

## Internal Controls and Procedures

Central evaluated the design of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the year ended December 31, 2010, and for the quarter ended March 31, 2011. Included in this evaluation was a review of the controls and procedures surrounding Central's transition to IFRS.

There has been no change in Central's design of internal controls and procedures over financial reporting that has materially affected Central's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

**Central 1 Credit Union**  
**Interim Consolidated Statement of Financial Position**  
**Unaudited**

	Notes	(Thousands of dollars)			
		March 31 2011	March 31 2010	December 31 2010	January 1 2010
<b>Assets</b>					
Cash and cash equivalents		\$ 170,734	\$ 106,387	\$ 121,294	\$ 202,563
Deposits with regulated financial institutions	7	138,387	147,926	140,565	59,871
Pledged trading assets	8	158,293	738,541	160,747	461,737
Reinvestment assets under the CMB and IMPP Programs	12	1,786,776	1,108,108	1,643,986	954,820
Non-pledged trading assets	8	4,493,127	3,254,463	4,253,134	3,412,287
Derivative assets	9	156,104	157,910	129,096	171,332
Loans	10	1,374,835	1,211,989	1,109,180	2,164,712
Investment securities	11	3,903,697	4,033,303	3,962,276	3,767,988
Secured loans to members	12	1,751,822	2,692,412	1,929,850	2,906,205
Current tax assets		4,012	13,560	3,185	12,213
Property and equipment		17,154	16,853	17,089	16,371
Intangible assets		3,428	3,545	4,106	3,612
Deferred tax assets	13	4,857	5,660	5,721	5,894
Investment in affiliates		129,018	124,317	128,862	123,718
Other	14	57,651	103,387	59,716	94,796
		<u>\$ 14,149,895</u>	<u>\$ 13,718,361</u>	<u>\$ 13,668,807</u>	<u>\$ 14,358,119</u>
<b>Liabilities</b>					
Deposits designated as trading	15	\$ 2,221,148	\$ 2,123,097	\$ 2,072,592	\$ 1,805,022
Derivative liabilities	16	80,763	69,383	80,123	65,936
Debt securities issued	17	603,474	459,079	620,524	465,289
Deposits from members	18	6,821,318	5,858,005	6,535,914	7,061,727
Obligations under the CMB and IMPP Programs	12	3,276,847	3,279,742	3,280,112	3,284,467
Subordinated liabilities	19	202,640	202,634	200,574	200,577
Provisions		6,242	6,453	6,453	6,376
Securities under repurchase agreements	20	166,344	1,018,362	162,358	748,654
Deferred tax liabilities	13	3,058	3,769	2,138	3,584
Other	21	167,056	126,368	114,853	138,478
		<u>13,548,890</u>	<u>13,146,892</u>	<u>13,075,641</u>	<u>13,780,110</u>
<b>Equity</b>					
Share capital	22	167,399	162,580	164,983	162,580
Contributed surplus		87,901	87,901	87,901	87,901
Retained earnings		316,161	272,042	300,126	266,485
Accumulated other comprehensive income		15,345	34,058	26,190	46,046
Reserves		5,849	6,516	5,594	6,625
		<u>592,655</u>	<u>563,097</u>	<u>584,794</u>	<u>569,637</u>
Total equity attributable to members of Central 1		592,655	563,097	584,794	569,637
Non-controlling interest		8,350	8,372	8,372	8,372
		<u>601,005</u>	<u>571,469</u>	<u>593,166</u>	<u>578,009</u>
		<u>\$ 14,149,895</u>	<u>\$ 13,718,361</u>	<u>\$ 13,668,807</u>	<u>\$ 14,358,119</u>

Approved by the Directors:

"Jack Smit"  
Jack Smit, Chairperson

"Fred Wagner"  
Fred Wagner, Chairperson - Audit Committee

See accompanying notes to the interim consolidated financial statements

**Central 1 Credit Union**  
**Interim Consolidated Statement of Profit or Loss**  
**Unaudited**

	Notes	(Thousands of dollars)	
		For the three months ended	
		March 31	March 31
		2011	2010
		<u>                    </u>	<u>                    </u>
Interest income			
Securities		\$ 47,513	\$ 37,394
Deposits with regulated financial institutions		335	268
Loans		6,155	4,794
Secured loans and reinvestment assets		28,567	29,774
		<u>82,570</u>	<u>72,230</u>
Interest expense			
Debt securities issued		4,108	1,480
Deposits from members		34,379	26,729
Obligations under the CMB and IMPP programs		29,212	28,950
Subordinated debt		2,065	2,057
		<u>69,764</u>	<u>59,216</u>
Interest margin		12,806	13,014
Gain on disposal of financial instruments	23	12,125	7,032
Changes in fair value of financial instruments	24	2,256	(6,536)
Net financial income		<u>27,187</u>	<u>13,510</u>
Recovery of credit losses	10	(12)	(93)
		27,199	13,603
Other income	25	23,871	23,686
Net financial and other income		<u>51,070</u>	<u>37,289</u>
Operating expenses			
Salaries and employee benefits		14,355	13,192
Premises and equipment		2,328	2,244
Other administrative expenses		13,239	13,206
		<u>29,922</u>	<u>28,642</u>
Profit before income taxes		21,148	8,647
Income taxes	26	2,833	1,175
		<u>                    </u>	<u>                    </u>
Profit for the period		<u>\$ 18,315</u>	<u>\$ 7,472</u>

See accompanying notes to the interim consolidated financial statements

**Central 1 Credit Union**  
**Interim Consolidated Statements of Comprehensive Income (Loss)**  
**Unaudited**

	(Thousands of dollars)	
	For the three months ended	
	March 31 2011	March 31 2010
	<u>                    </u>	<u>                    </u>
Profit for the period	\$ 18,315	\$ 7,472
Other comprehensive income (loss), net of tax		
Fair value reserve (available-for-sale financial assets)		
Net change in fair value <sup>1</sup>	(8,077)	(6,675)
Reclassification of gains on available-for-sale assets to profit or loss <sup>2</sup>	(2,768)	(5,313)
	<u>(10,845)</u>	<u>(11,988)</u>
Other comprehensive loss, net of tax	<u>(10,845)</u>	<u>(11,988)</u>
Comprehensive income (loss), net of tax	<u>\$ 7,470</u>	<u>\$ (4,516)</u>
Income tax recoveries deducted from the above items		
<sup>1</sup> Net change in fair value of available-for-sale assets	<u>\$ (1,273)</u>	<u>\$ (1,115)</u>
<sup>2</sup> Reclassification of gains on available-for-sale assets to profit or loss	<u>\$ (453)</u>	<u>\$ (886)</u>

See accompanying notes to the interim consolidated financial statements

**Central 1 Credit Union**  
**Interim Consolidated Statement of Changes in Equity**  
**Unaudited**

	Attributable to Equity holders						Non-Controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Fair Value Reserve	Other Reserves	Retained Earnings	Equity Attributable to Members		
Balance at January 1, 2011	164,983	87,901	26,190	5,594	300,126	584,794	8,372	593,166
<b>Total Comprehensive income for the period</b>								
Profit for the period					18,337	18,337	(22)	18,315
Other comprehensive income, net of tax								
Fair value reserve (available for sale financial assets, net of tax)			(10,845)			(10,845)		(10,845)
Total other comprehensive income	-	-	(10,845)	-	-	(10,845)	-	(10,845)
Total comprehensive income	-	-	(10,845)	-	18,337	7,492	(22)	7,470
<b>Transactions with owners, recorded directly in equity</b>								
Dividends to members					(2,381)	(2,381)		(2,381)
Related tax savings					334	334		334
Transfer from reserves				255	(255)	-		-
Net shares issued	2,416					2,416		2,416
Total contributions and distributions to owners	2,416	-	-	255	(2,302)	369	-	369
Balance at March 31, 2011	167,399	87,901	15,345	5,849	316,161	592,655	8,350	601,005

Net income attributable to:

	<u>2011</u>	<u>2010</u>
Members of Central 1	18,337	7,472
Non-controlling interest	(22)	-
	<u>\$ 18,315</u>	<u>\$ 7,472</u>

Total Comprehensive income attributable to:

Members of Central 1	7,492	(4,516)
Non-controlling interest	(22)	-
	<u>\$ 7,470</u>	<u>\$ (4,516)</u>

**Central 1 Credit Union**  
**Interim Consolidated Statement of Changes in Equity**  
**Unaudited**

	Attributable to Equity holders						Non-Controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Fair Value Reserve	Other Reserves	Retained Earnings	Equity Attributable to Members		
Balance at January 1, 2010	162,580	87,901	46,046	6,625	266,485	569,637	8,372	578,009
<b>Total Comprehensive income for the period</b>								
Profit for the period					7,472	7,472		7,472
Other comprehensive income, net of tax								
Fair value reserve (available for sale financial assets, net of tax)			(11,988)			(11,988)		(11,988)
Total other comprehensive income	-	-	(11,988)	-	-	(11,988)	-	(11,988)
Total comprehensive income	-	-	(11,988)	-	7,472	(4,516)	-	(4,516)
<b>Transactions with owners, recorded directly in equity</b>								
Dividends to members					(2,361)	(2,361)		(2,361)
Related tax savings					337	337		337
Transfer from reserves				(109)	109	-		-
Total contributions and distributions to owners	-	-	-	(109)	(1,915)	(2,024)	-	(2,024)
Balance at March 31, 2010	162,580	87,901	34,058	6,516	272,042	563,097	8,372	571,469

**Central 1 Credit Union**  
**Interim Consolidated Statements of Cash Flows**  
**Unaudited**

(Thousands of dollars)

For the three months ended  
March 31                      March 31  
2011                              2010

	2011	2010
Cash flows from operating activities		
Profit for the period	\$ 18,315	\$ 7,472
Adjustments for:		
Depreciation and amortization	1,466	1,342
Net interest income	(12,806)	(13,014)
Gain on disposal of financial instruments	(12,125)	(7,032)
Changes in fair value of financial instruments	(2,256)	6,536
Income tax expense	2,833	1,175
Recovery of credit losses	(12)	(93)
Other items, net	58,259	(417)
	53,674	(4,031)
Change in trading assets	(302,110)	(108,654)
Change in loans	(264,095)	953,570
Change in trading liabilities	148,240	318,007
Change in deposits from members	285,719	(1,202,297)
	(78,572)	(43,405)
Interest received	141,014	68,952
Interest paid	(51,212)	(39,056)
Income tax paid	(300)	-
Net cash from operating activities	10,930	(13,509)
 Cash flows from investing activities		
Change in amounts on deposit with regulated financial institutions	2,177	(88,063)
Change in reinvestment assets under the CMB and IMPP programs	(147,832)	(157,196)
Change in investment securities	26,390	(275,919)
Change in secured loans to members	171,594	193,333
Acquisition of property, plant and equipment	(574)	(1,297)
Acquisition of intangible assets	(179)	(360)
	51,576	(329,502)
 Cash flows from financing activities		
Change in debt securities issued	(17,050)	(6,003)
Change in securities under repurchase agreements	3,986	271,507
Dividends paid	(2,418)	(18,669)
Proceeds from issue of shares	2,416	-
	(13,066)	246,835
Increase (decrease) in cash and cash equivalents	49,440	(96,176)
Cash and cash equivalents - beginning of period	121,294	202,563
Cash and cash equivalents - end of period	\$ 170,734	\$ 106,387

See accompanying notes to the interim consolidated financial statements

**Central 1 Credit Union**  
**Notes to the Interim Consolidated Financial Statements**  
**Unaudited**  
**Period ending March 31, 2011**

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**1. Incorporation and governing legislation**

Central 1 Credit Union (Central) (formerly Credit Union Central of British Columbia) is domiciled in Canada and is governed by the Credit Union Incorporation Act (British Columbia) and is also subject to the provisions of the Financial Institutions Act (British Columbia) and the Cooperative Credit Associations Act (Canada). These financial statements of Central comprise Central and its subsidiaries.

Central is the primary financial facility and trade association for credit unions in British Columbia and its member credit unions in Ontario. The performance of the British Columbia credit union system and that of Central's member credit unions in Ontario (collectively referred to herein as the Ontario credit union system) plays an integral part in determining the results of Central's operations and its financial position.

**2. Basis of preparation**

**(a) Statement of compliance**

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These are Central's first International Financial Reporting Standards (IFRS) interim consolidated financial statements. Central adopted IFRS in accordance with IFRS 1, *First time Adoption of International Financial Reporting Standards*. IFRS was applied retroactively to January 1, 2010.

Central's interim consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Canadian GAAP differs in some areas from IFRS. Central has recorded transition adjustments on applying IFRS as disclosed in Note 4.

Reconciliations, descriptions and explanations of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Central are provided in Note 4. This note includes reconciliations of equity and comprehensive income or loss for comparative periods reported under Canadian GAAP to those reported for those periods under IFRS.

The policies set out below have been consistently applied to all the periods presented and by all subsidiaries included in the interim consolidated financial statements.

The interim consolidated financial statements were authorized for issue by the Board of Directors on May 20, 2011.

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**Cooperative Credit Associations Act (Canada)**

Section 292 of the Cooperative Credit Associations Act (Canada) states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada)(OSFI), the financial statements are to be prepared in accordance with Canadian GAAP. Canadian GAAP for publicly accountable enterprises is replaced by IFRS, effective January 1, 2011. These accounting policies conform, in all material respects, to IFRS.

**(b) Basis of measurement**

The interim consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value, except as described in Note 3(k).
- the assets and liabilities for defined benefit obligations are recognized as the present value of the benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized actuarial past service costs and unrecognized actuarial losses.

**(c) Functional and presentation currency**

These interim consolidated financial statements are presented in Canadian dollars, which is Central's functional currency.

**(d) Use of estimates and judgements**

In preparing the interim consolidated financial statements, management is required to make estimates and assumptions based on information as of the date of the financial statements. Certain amounts recorded in the financial statements, including financial instruments measured at fair value, recoverability of loans, accounting for securitization transactions, income taxes and pension and post-retirement benefits, require management to make subjective or complex judgments. Actual results could differ materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim consolidated financial statements are described in Note 5.

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**3. Significant accounting policies**

The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below.

**(a) Basis of consolidation**

The interim consolidated financial statements include the assets, liabilities, results of operations and cash flows of Central and its subsidiaries: 0789376 B.C. Ltd., Central Financial Corporation (1989) Ltd., Central 1 Trust Company, C.U. Financial Services Ltd., Central Data Systems Ltd., Central Risk and Insurance Management Services Ltd., CUPP Services Ltd., Inovera Solutions Inc., Landmark Credit Limited and Stabilization Fund Corporation. Central owns all the common shares of each of its subsidiaries. All inter-corporate transactions and balances have been eliminated in preparing the interim consolidated financial statements.

Subsidiaries are entities controlled by Central. The financial statements of subsidiaries are included in the interim consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies across all subsidiaries for like transactions and other events in similar circumstances.

Central owns all of the outstanding common shares of CUPP Services Ltd., but the majority of the outstanding preferred shares are owned by credit unions in British Columbia. Central recognizes the interests of these preferred shareholders of CUPP Services Ltd as Non-controlling interest in the interim consolidated statement of financial position.

Central owns all the common shares of Stabilization Fund Corporation. Central recognizes the equity of Stabilization Fund Corporation as a reserve in the interim consolidated statement of financial position due to the restrictions on distribution of these amounts as described in Note 3(v).

Further information regarding Central's subsidiaries is contained in Note 31.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on evaluation of the substance of its relationship with Central and the SPE's risks and rewards, Central concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, Central controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of Central according to

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its specific business needs so that Central obtains benefit from the SPE's operation.

- Central has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism; Central has delegated these decision-making powers.
- Central has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE
- Central retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether Central has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between Central and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, changes in market conditions may alter the substance of the relationship between Central and the SPE and in such instances Central determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where Central's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between Central and an SPE, Central performs a reassessment of control over the SPE.

Information about Central's securitization activities is set out in Note 3(g).

**(b) Foreign currency**

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate at the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss.

**(c) Financial assets and liabilities**

*i) Recognition*

Central initially recognizes financial assets on the date on which they are acquired and recognizes financial liabilities on the date on which they are issued. Regular way purchases and sales of financial assets are recognized on the settlement date. A financial asset or liability is measured initially at fair value, plus for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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*ii) Classification*

Classification of financial assets and liabilities are described in Notes 3(d) to 3(k).

*iii) Derecognition*

Central derecognizes a financial asset when the contractual rights to the cash flows for the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which Central neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred assets that qualify for derecognition that is created or retained by Central is recognized as a separate asset or liability in the interim consolidated statement of financial position.

On derecognition of a financial asset, the difference between the carrying value of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognized in other comprehensive income is recognized as profit or loss.

Where Central enters into a transaction whereby it transfers assets but retains all or substantially all the risks and rewards of ownership, the transferred assets are not derecognized. Transfers of assets where Central retains all or substantially all risk and rewards include, for example, securities lending and repurchase transactions.

Central derecognizes a financial liability when its contractual obligations are discharged or expire.

*iv) Offsetting*

Financial assets and liabilities are offset and the net amount presented in the interim consolidated statement of financial position when, and only when, Central has a legal right to set off the recognized amounts and it intends to either settle on a net basis or to realise the asset and liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar instruments.

*v) Fair Value Measurement*

Note 6 contains information on the measurement of financial assets and liabilities recognized in the interim consolidated statements of financial position at fair value.

*vi) Identification and Measurement of impairment*

At each reporting date Central assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or group of financial assets is (are) impaired when objective evidence demonstrates that a

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loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the assets(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower or indications that a borrower or issuer will enter bankruptcy, and the disappearance of an active market for the security. It may also include other observable data related to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the group.

Central considers evidence of impairment for loans and investments securities at both a specific asset and collective level. All individually significant loans and investment securities are assessed for specific impairment. All individually significant loans and investment securities not found to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and investment securities with similar characteristics.

In assessing collective impairment, Central uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance against loans. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Central writes off loans and investment securities when they are determined to be uncollectible. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the

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impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an available-for-sale equity security is recognized in other comprehensive income.

*vii) Designation at fair value through profit or loss*

Central has designated financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

**(d) Cash and cash equivalents**

Cash includes notes and coins on hand, unrestricted balances held with financial institutions are highly liquid financial assets with original maturities of less than three months. Cash and cash equivalents are carried at amortized cost in the interim consolidated statement of financial position.

**(e) Deposits with regulated financial institutions**

Amounts on deposit with regulated financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Amounts on deposit are initially measured at fair value plus incremental direct transaction costs. Amounts on deposit classified as Loans and Receivable are subsequently measured at their amortized cost using the effective interest rate, while amounts on deposit with regulated financial institutions classified as available-for-sale or designated as held for trading are subsequently measured at fair value. Changes in fair value on available-for-sale assets are recognized in other comprehensive income and on held for trading assets through profit or loss.

**(f) Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that Central acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the interim consolidated statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified

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subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables then it may be reclassified if Central has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

**(g) Securitizations under the Canada Mortgage Bond (CMB) program and Insured Mortgage Purchase Program (IMPP)**

*Securitizations prior to 2010*

Prior to 2010, Central securitized pools of mortgages acquired from its member credit unions by creating Government of Canada National Housing Administration (NHA) Mortgage-Backed Securities (MBS).

Under the terms of the mortgage purchase agreement between Central and the member credit union, the member credit union agreed to indemnify Central for any losses incurred due to mortgage defaults. Additionally, Central and the member credit union entered into swap agreements under which the member credit union retained its interest in the spread between the interest earned on the underlying mortgage assets and the cost of funds paid to Central as prescribed in the swap agreements. The member credit union continues to service the underlying mortgages.

As the member credit union retains substantially all the risks and rewards of ownership of the underlying mortgages, Central recognizes its interest in the mortgages assets acquired as Secured loans in the interim consolidated statement of financial position. These assets were initially recognized and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Central has transferred certain MBS to Canada Housing Trust (CHT) under the CMB program or to Canada Mortgage and Housing Corporation (CMHC) under the Insured Mortgage Purchase Program (IMPP). Under the terms of these arrangements, Central receives proceeds equal to the fair value of MBS transferred, and accepts the obligation to provide funds to CHT and CMHC for payment of principal and interest on debt instruments issued by CHT and CMHC as specified in swap arrangements between Central and CHT or CMHC.

Principal payments received on the underlying mortgages are used to acquire reinvestment assets in Principal Retention Trust accounts. Interest payments received on the underlying mortgages as well as interest payments received on reinvestment assets

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are transferred to Interest Retention Trust accounts. Both the Principal Retention and Interest Retention accounts are managed by Central on behalf of either CHT or CMHC. Coupon payments on the debt obligations issued by CHT and CMHC are charged to the Interest Retention account with any shortfall in the account to be funded by Central and any excess to be returned to Central at each coupon date.

As Central has not transferred substantially all the risks and rewards of ownership of the underlying mortgages under these programs, Central continues to recognize the underlying mortgages as secured loans and the transfers to CHT and CMHC are recognized as secured funding arrangements.

Central initially recognizes and subsequently measures the obligations to CHT and CMHC at fair value with changes in fair value recognized in profit or loss. Central initially recognizes and subsequently measures reinvestment assets acquired at fair value with changes in fair value recognized in profit or loss.

Interest income recognized on Secured loans is based on the cost of funds specified in the related swap agreement between Central and the respective credit union. Fee income is recorded in Other income. Interest income on reinvestment assets is recognized in profit or loss based on the contractual terms of the asset.

Interest expense on Obligations under the CMB and IMPP programs is based on the fixed or floating cost of funds rate specified in the swap agreement between Central and CHT or CMHC. Note 12 sets out the details with respect to the financial assets and liabilities, and related income and expenses recorded with respect to the CMB and IMPP programs.

*Securitizations post 2009*

Subsequent to 2009, Central facilitates the securitization of NHA MBS by acting as a swap counterparty with CHT and through the provision of administrative services. Central does not acquire an interest in the underlying mortgages and records administration fees as other income when earned.

**(h) Derivatives**

Derivatives are measured at fair value in the interim consolidated statement of financial position with changes in fair value recognized in profit or loss.

Derivatives may be embedded in other contractual arrangements (a 'host contract'). Central accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separate embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with their host contract.

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**(i) Loans**

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that Central does not intend to sell immediately or in the short term.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest rate method.

**(j) Securities purchased under reverse repurchase agreements and sold under repurchase agreements.**

Securities purchased under reverse repurchase agreements consist of the purchase of the security with a commitment by Central to resell to the original seller on a specified date at a specified price. Financial assets acquired under reverse repurchase agreements, other than those acquired in securitization transactions, are classified as loans in the interim consolidated statement of financial position. The difference between the cost of the purchase and predetermined proceeds to be received on a resale agreement is recorded in Interest income.

A repurchase agreement consists of the sale of a security with a commitment by Central to repurchase the security on a specified date at a specified price. Obligations related to securities sold under repurchase agreements are recorded at amortized cost and in the statement of financial position. The difference between the proceeds received on the sale of the security and the amount that Central agrees to repay under the repurchase agreement is recorded in Interest expense.

**(k) Investment securities**

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available for sale.

*Held-to-maturity*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that Central has the positive intent and ability to hold to maturity, and which are not recognized as at fair value through profit or loss or as available for sale.

Held to maturity investments are carried at amortized cost using the effective interest rate method.

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*Fair value through profit or loss*

Central designates some investment securities at fair value, with changes recognized immediately in profit or loss.

*Available-for-sale*

Available-for-sale investments are non-derivative instruments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value can be readily determined are carried at fair value.

Certain unquoted equity securities whose fair value cannot be readily determined due to a lack of an active market and the wide diversity of possible valuation techniques and assumptions are carried at cost. The existence of restrictions placed on Central's ability to transfer or sell these investments severely limits the size of the available market. In the absence of purchases or sales of these securities between arm's length parties acting independently, Central will continue to carry these investments at the value determined by reference to the most recent transaction which meets such criteria.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if Central has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

**(1) Property and equipment**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalized as part of equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the assets to a working condition for their intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net within other income in profit or loss.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the pattern of consumption of future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Computer hardware	3 to 5 years
Furniture, fixtures and equipment	3 to 10 years
Leaseholds	Lesser of the useful life of the leasehold or the term of the lease

Depreciation methods, useful lives and residual values are reassessed each reporting period and adjusted if appropriate.

**(m) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Items of investment property are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of investment property.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property. The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
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**(n) Intangible assets**

Software acquired by Central is classified as intangible asset and is stated at cost less accumulated amortization and accumulated impairment losses.

Expenditure on internally developed software is recognized as an asset when Central is

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able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(n) Investment in affiliates**

Investments in affiliates are accounted for using the equity method of accounting. As such, Central's original investment is recorded at acquisition cost and is adjusted thereafter by Central's appropriate share of the affiliate's net income, under the equity method of accounting, in periods subsequent to the acquisition date.

Central's affiliated entities include the CUMIS Group Limited, Credential Financial Inc., and Credit Union Central of Canada. Additional information on Central's affiliated entities is included in Note 31.

**(o) Leases**

*Central as lessee*

Leases where Central assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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*Central as lessor*

Leasing agreements whereby Central earns rental income on premises classified as Investment Property are classified as operating leases. Central recognizes rental income on a straight-line basis over the terms of the leases. Lease inducements are recognized as an integral part of the total lease income, over the term of the lease.

**(o) Impairment of non-financial assets**

The carrying value of Central's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. If the impairment has decreased or no longer exists, impairment loss is reversed to the extent that estimated recoverable amount does not exceed the carrying amount that would have been determined net of depreciation if no impairment loss had been recognized.

**(p) Deposits, debt securities issued and subordinated liabilities**

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental transaction costs, and subsequently measured at their amortized cost using the effective interest method.

**(q) Provisions**

A provision is recognized if, as a result of a past event, Central has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(r) Insurance contracts**

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the one party agrees to compensate another party (the policyholder) if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract are classified as investment contracts

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or derivative contracts, as appropriate.

Central, through its subsidiaries CUPP Services Ltd. and Stabilization Fund Corporation, provides insurance related services to its members. CUPP Services Ltd. is incorporated under the laws of British Columbia and is subject to the Insurance (Captive Company) Act of British Columbia. Substantially all issued shares of CUPP Services Ltd. are held by credit unions in British Columbia.

Stabilization Fund Corporation provides limited loss prevention and rehabilitation services on behalf of member credit unions in Ontario.

CUPP Services Ltd. provides the following insurance to its shareholders:

- Professional liability insurance, including directors' and officers', corporate errors and omissions, and employment practices liability insurance
- Master property insurance including property, liability, financial and boiler and machinery insurance

Premiums earned are included in other income and accounted for in the period in which the contract entered into and include estimates where the amounts are not determined at the end of the reporting period. Premiums are earned as revenue on a time proportionate basis over the term of the insurance coverage. A provision for unearned premiums is included in Other liabilities and represents the portion of premiums written relating to periods of insurance coverage subsequent to the reporting period.

Central, in consultation with its actuaries, maintains a provision for unpaid claims, including adjustment expenses, which is discounted, and represents the estimated amounts required to settle all outstanding and unreported claims incurred at the end of the reporting period. The initial estimate of unpaid claims is prepared on an undiscounted basis using assumptions, historical trends, and data available on individual claims to determine an expected Net Loss Ratio. Net Loss Ratio is the ratio of claims incurred during a specified period to the premiums earned during that period. The discounted provision for unpaid claims incorporates assumptions about projected cash flows and provisions for adverse deviations.

Differences between the estimated cost and subsequent settlement of claims are recognized in the interim consolidated statement of profit or loss in the year in which they are settled or in which the provision for claims outstanding is re-estimated. The provision for unpaid claims is subject to measurement uncertainty.

The business risks of insurance reside in the pricing of the product, in management of investment funds, and in the estimation of policy liabilities. Central monitors its exposure to insurance risk by performing sensitivity analysis whereby the potential impact of changes to Central's Expected Net Loss Ratio on pre-tax earnings and equity are evaluated.

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Ongoing management practices and policies of Central and its subsidiaries in underwriting, claims and investment activities help mitigate these risk exposures.

**(s) Financial guarantees**

Financial guarantees are contracts that require Central to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee becomes probable. Financial guarantees are included within other liabilities.

**(t) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the enacted tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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**(u) Employee benefits**

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Central participates in multi-employer plans in which plan assets are not tracked by contributor and plan liabilities are not tracked by participant. As insufficient information is available to apply defined benefit accounting, these plans are therefore accounted for on a defined contribution basis.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Central's net obligation in respect of defined benefits plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for service in the current and prior periods and discounting that benefit to determine its present value, and the deducting the fair value of plan assets.

Central recognizes all actuarial gains and losses arising from defined benefit plans immediately in Other comprehensive income.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that benefits vest immediately, the expense is recognized immediately in profit of loss.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term incentive plans if Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(v) Reserves**

Central, through Stabilization Fund Corporation, maintains the Credit Union Deductibles Fund and the Stabilization Fund on behalf of its member credit unions in Ontario.

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The Credit Union Deductibles Fund, which is funded primarily by assessments, represents the excess of revenue over expense related to the provision of insurance services. The Stabilization Fund represents an endowment in support of loss prevention activities which is restricted to programs that are considered loss preventative in nature.

**(w) Revenue recognition**

*Interest income and expense*

Interest income and expense, other than that earned or incurred on trading assets and liabilities, are recognized in profit or loss using the effective interest method. The effective interest rate method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, Central estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Transaction costs incurred on the acquisition of trading assets or issuance of trading liabilities are recognized in profit or loss at the time of acquisition or issuance. Central records interest income and expense on trading assets and liabilities based on the contractual terms of the instrument.

Interest income and expense presented in the interim consolidated statement of comprehensive income includes:

- Interest on financial assets and liabilities measured at amortized cost calculated on an effective interest rate basis
- Interest income on available-for-sale asset calculated on an effective interest basis
- Interest income and expense on financial assets and liabilities measured at fair value through profit or loss based on the contractual terms of the instrument.

*Changes in fair value of financial instruments*

Changes in fair value included in the interim consolidated statement of profit or loss include:

- Fair value changes on derivatives
- Fair value changes on trading assets and liabilities
- Fair value changes on financial assets and liabilities under the CMB and IMPP programs

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- Impairment charges on available for sale financial assets that have been reclassified from other comprehensive income

*Other income*

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Membership dues and provincial advertising assessments are received from Central's member credit unions and are recognized in income as earned. Fees earned by Technology and Payment Services, Financial Services and Trade Services operations are recorded in income when Central has rendered the related service and is entitled to receive income.

**(x) New standards and interpretations not yet adopted**

At 31 March 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these interim consolidated financial statements. Those which are expected to have a significant effect on Central's consolidated financial statements are discussed below.

*Standards and Interpretations issued by the IASB*

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 9 is required to be applied retrospectively.

The main changes to the requirements of IAS 39 are summarized below.

All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist. Financial assets are to be measured at amortized cost if the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding and the entity demonstrates the intention of holding the financial assets for the collection of the contractual cash flows. With certain exceptions that are not anticipated to be significant to Central, all other financial assets are to be measured at fair value, with changes in fair value recognized in profit or loss.

An entity would be permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch.

The second and third phases in IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortized cost and hedge accounting. The

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IASB has indicated that it expects to finalize the replacement of IAS 39 by June 2011. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

The impact of these changes on Central's financial statements is not readily determinable at this time.

**4. Adoption of IFRS**

These are Central's first interim consolidated financial statements prepared in accordance with IFRS.

The accounting policies presented in Note 3 have been applied in preparing the interim consolidated financial statements for the three-month ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for the three-month ended March 31, 2010, the year ended December 31, 2010 and in the preparation of the opening IFRS consolidated statement of position as at January 1, 2010.

In preparing its opening IFRS consolidated statement of financial position, Central has adjusted the amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected Central's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The adjustments to Central's Canadian GAAP financial statements can be categorized as follows:

- 1) Consolidation of additional subsidiaries
- 2) Measurement changes on adoption of derecognition standard
- 3) Measurement changes on adoption of standards other than derecognition
- 4) Reclassification and presentation adjustments not impacting Equity

1) Consolidation of additional subsidiaries

On adoption of IFRS, Central consolidated CUPP Services Ltd. (CUPP) and Stabilization Fund Corporation (Stab Fund), which were Variable Interest Entities (VIE's) under Canadian GAAP. While Central holds all of the common shares of both entities, Central does not realize the majority of the benefits of ownership of these entities and thus was not required to consolidate them under Canadian GAAP.

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The adjustment to recognize these entities is as follows:

	(Thousands of dollars)		
<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Cash and cash equivalents	\$ (117)	\$ (43)	\$ (28)
Deposits with regulated financial institutions	5,198	5,247	5,170
Non-pledged trading assets	4,879	5,703	3,906
Investment securities	(447)	(504)	(447)
Current tax assets	101	81	89
Deferred tax assets	54	47	56
Other assets	<u>5,743</u>	<u>61</u>	<u>382</u>
<b>Total assets</b>	<u>\$ 15,411</u>	<u>\$ 10,592</u>	<u>\$ 9,128</u>
Deposits designated as trading	\$ (3,000)	\$ (2,126)	\$ (3,000)
Deposits from members	(10,282)	(9,733)	(10,228)
Provisions	6,453	6,453	6,376
Other liabilities	<u>7,352</u>	<u>2,030</u>	<u>983</u>
<b>Total liabilities</b>	<u>523</u>	<u>(3,376)</u>	<u>(5,869)</u>
Retained earnings	-	2	-
Reserves	6,516	5,594	6,625
Non-controlling interest	<u>8,372</u>	<u>8,372</u>	<u>8,372</u>
<b>Total equity</b>	<u>\$ 14,888</u>	<u>\$ 13,968</u>	<u>\$ 14,997</u>
	<u>\$ 15,411</u>	<u>\$ 10,592</u>	<u>\$ 9,128</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
	Increase (Decrease)	Increase (Decrease)	
<b>Interim consolidated statement of profit or loss</b>			
Interest income	\$ 102	\$ 300	
Interest expense	37	312	
Change in fair value of financial instruments	(33)	12	
Other income	2,236	8,758	
Operating expense	(2,445)	(10,343)	
Income tax	<u>(6)</u>	<u>(68)</u>	
<b>Total profit</b>	<u>\$ (109)</u>	<u>\$ (1,029)</u>	

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2) Measurement changes on adoption of derecognition standards

As explained in Note 3(g), prior to 2010, Central periodically transferred mortgages to either CHT or CMHC. Under Canadian GAAP, these transactions were considered sales of receivables to a third party and the receivables were derecognized. As Central has not transferred substantially all the risks and rewards of the underlying mortgage assets the derecognition criteria in IAS 39 have not been met.

The impact of recognizing these assets is as follows:

	(Thousands of dollars)		
<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Reinvestment assets under the CMB and IMPP programs	\$ 1,108,108	\$ 1,643,986	\$ 954,820
Non-pledged trading assets	(520,017)	(338,616)	(573,739)
Derivative assets held for risk management	38,589	72,697	42,898
Loans	(1,137)	-	-
Investment securities	(48,244)	(38,395)	(49,677)
Secured loans to members	2,692,412	1,929,850	2,906,205
Deferred tax assets	<u>1,269</u>	<u>1,488</u>	<u>566</u>
<b>Total assets</b>	<u>\$ 3,270,980</u>	<u>\$ 3,271,010</u>	<u>\$ 3,281,073</u>
Deposits from members	\$ (1,158)	\$ -	\$ -
Obligations under the CMB and IMPP programs	<u>3,279,742</u>	<u>3,280,112</u>	<u>3,284,467</u>
<b>Total liabilities</b>	<u>3,278,584</u>	<u>3,280,112</u>	<u>3,284,467</u>
Retained earnings	(7,588)	(8,609)	(3,394)
Accumulated other comprehensive income (loss)	<u>(16)</u>	<u>(493)</u>	<u>-</u>
<b>Total equity</b>	<u>(7,604)</u>	<u>(9,102)</u>	<u>(3,394)</u>
	<u>\$ 3,270,980</u>	<u>\$3,271,010</u>	<u>\$ 3,281,073</u>

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	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>
<b>Interim consolidated statement of profit or loss</b>	Increase (Decrease)	Increase (Decrease)
Interest income	\$ 24,099	\$ 102,360
Interest expense	(28,950)	(117,545)
Gain on disposal of financial instruments	-	1,180
Change in fair value of financial instruments	(43)	7,949
Income tax	700	841
<b>Total profit or loss</b>	<u>\$ (4,194)</u>	<u>\$ (5,215)</u>
<b>Interim consolidated statement of comprehensive income</b>		
Change in fair value of available-for-sale assets	<u>(16)</u>	<u>(493)</u>
<b>Total other comprehensive income</b>	<u>\$ (16)</u>	<u>\$ (493)</u>

- 3) Measurement changes on adoption of standards other than derecognition
- a) Property, Plant and Equipment

On transition to IFRS, Central elected to re-measure its investment property at fair value, and reclassified its investment property as other assets. Under Canadian GAAP investment property was measured on a depreciated costs basis and classified as property, plant and equipment.

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The impact of this change is as follows:

<b>Interim consolidated statement of financial position</b>	(Thousands of dollars)		
	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Other assets	\$ 5,663	\$ 5,363	\$ 5,763
<b>Total assets</b>	<u>\$ 5,663</u>	<u>\$ 5,363</u>	<u>\$ 5,763</u>
Deferred tax liabilities	\$ 808	\$ 736	\$ 824
<b>Total liabilities</b>	<u>808</u>	<u>736</u>	<u>824</u>
Retained earnings	4,855	\$ 4,627	4,939
<b>Total equity</b>	<u>4,855</u>	<u>4,627</u>	<u>4,939</u>
<b>Total liabilities and equity</b>	<u>\$ 5,663</u>	<u>\$ 5,363</u>	<u>\$ 5,763</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
<b>Interim consolidated statement of profit or loss</b>	Increase (Decrease)	Increase (Decrease)	
Operating expenses	\$ (100)	\$ (400)	
Income tax	16	88	
<b>Total profit or loss</b>	<u>\$ (84)</u>	<u>\$ (312)</u>	

Under IFRS, entities are required to separately account for the major components of property and equipment. Central had previously accounted for its owned buildings as single assets and had not separately out the individual components.

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The impact of this change is as follows:

	(Thousands of dollars)		
<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
Property and equipment	\$ 651	\$ 793	\$ 664
Other assets	<u>1,357</u>	<u>1,403</u>	<u>1,357</u>
<b>Total assets</b>	<u>\$ 2,008</u>	<u>\$ 2,196</u>	<u>\$ 2,021</u>
Deferred tax liabilities	<u>\$ 286</u>	<u>\$ 324</u>	<u>\$ 288</u>
<b>Total liabilities</b>	<u>286</u>	<u>324</u>	<u>288</u>
Retained earnings	<u>1,722</u>	<u>1,872</u>	<u>1,733</u>
<b>Total equity</b>	<u>\$ 2,008</u>	<u>\$ 2,196</u>	<u>\$ 2,021</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
<b>Interim consolidated statement of profit or loss</b>	Increase (Decrease)	Increase (Decrease)	
Operating expenses	\$ (13)	\$ 175	
Income tax	<u>2</u>	<u>(36)</u>	
<b>Total profit or loss</b>	<u>\$ (11)</u>	<u>\$ 139</u>	

Under Canadian GAAP leases of computer equipment were classified as operating leases. Under IFRS, these leases are classified as finance leases.

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The impact of this change is as follows:

	(Thousands of dollars)		
<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Property and equipment	\$ 1,303	\$ 1,208	\$ 1,448
<b>Total assets</b>	<u>\$ 1,303</u>	<u>\$ 1,208</u>	<u>\$ 1,448</u>
Deferred tax liabilities	\$ (5)	\$ (3)	\$ (7)
Other liabilities	1,342	1,238	1,500
<b>Total liabilities</b>	<u>1,337</u>	<u>1,235</u>	<u>1,493</u>
Retained earnings	<u>(34)</u>	<u>(27)</u>	<u>(45)</u>
<b>Total equity</b>	<u>(34)</u>	<u>(27)</u>	<u>(45)</u>
Total liabilities and equity	<u>\$ 1,303</u>	<u>\$ 1,208</u>	<u>\$ 1,448</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
<b>Interim consolidated statement of profit or loss</b>	Increase (Decrease)	Increase (Decrease)	
Interest expense	\$ (33)	\$ (349)	
Operating expenses	46	371	
Income tax	<u>(2)</u>	<u>(4)</u>	
<b>Total profit or loss</b>	<u>\$ 11</u>	<u>\$ 18</u>	

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The total impact of changes related to property, plant and equipment is as follows:

(Thousands of dollars)

<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Property and equipment	\$ 1,954	\$ 2,001	\$ 2,112
Other assets	<u>7,020</u>	<u>6,766</u>	<u>7,120</u>
<b>Total assets</b>	<u>\$ 8,974</u>	<u>\$ 8,767</u>	<u>\$ 9,232</u>
Deferred tax liabilities	\$ 1,089	\$ 1,057	\$ 1,105
Other liabilities	<u>1,342</u>	<u>1,238</u>	<u>1,500</u>
<b>Total liabilities</b>	<u>2,431</u>	<u>2,295</u>	<u>2,605</u>
Retained earnings	<u>6,543</u>	<u>6,472</u>	<u>6,627</u>
<b>Total equity</b>	<u>\$ 8,974</u>	<u>\$ 8,767</u>	<u>\$ 9,232</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
	Increase (Decrease)	Increase (Decrease)	
<b>Interim consolidated statement of profit or loss</b>			
Interest expense	\$ (33)	\$ (349)	
Operating expenses	(67)	146	
Income tax	<u>16</u>	<u>48</u>	
<b>Total profit or loss</b>	<u>\$ (84)</u>	<u>\$ (155)</u>	

b) Employee benefits

Under IFRS, Central's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. The unrecognized actuarial gains and losses exceeding the corridor that were recognized in profit or loss for the year ending December 31, 2010 under Canadian GAAP were reversed.

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The impact of this change is as follows:

	(Thousands of dollars)		
<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Deferred tax assets	\$ (710)	\$ (327)	\$ (722)
Other assets	<u>(2,333)</u>	<u>(3,073)</u>	<u>(2,365)</u>
<b>Total assets</b>	<u>\$ (3,043)</u>	<u>\$ (3,400)</u>	<u>\$ (3,087)</u>
Deferred tax liabilities	\$ (333)	\$ (431)	\$ (339)
Other liabilities	<u>(4,967)</u>	<u>(2,319)</u>	<u>(5,046)</u>
<b>Total liabilities</b>	<u>(5,300)</u>	<u>(2,750)</u>	<u>(5,385)</u>
Retained earnings	<u>2,257</u>	<u>(650)</u>	<u>2,298</u>
<b>Total equity</b>	<u>\$ (3,043)</u>	<u>\$ (3,400)</u>	<u>\$ (3,087)</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
<b>Interim consolidated statement of profit or loss</b>	Increase (Decrease)	Increase (Decrease)	
Operating expenses	\$ (47)	\$ (183)	
Income tax	<u>6</u>	<u>32</u>	
<b>Total profit or loss</b>	<u>\$ (41)</u>	<u>\$ (151)</u>	
<b>Interim consolidated statement of comprehensive income</b>			
Actuarial losses on employee future benefit plans	<u>-</u>	<u>(2,797)</u>	
<b>Total other comprehensive income</b>	<u>\$ -</u>	<u>\$ (2,797)</u>	

At period close, actuarial gains or losses recognized in Other comprehensive income are transferred from Accumulated other comprehensive income to retained earnings with the result that no amounts are recognized in AOCI at period-end.

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c) Financial instruments

On transition to IFRS, Central adjusted the carrying value of certain financial instruments to reflect differences between Canadian GAAP and IFRS.

The impact of these changes is as follows:

	(Thousands of dollars)		
<b>Interim consolidated statement of financial position</b>	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Deposits with regulated financial institutions	\$ (44)	\$ (40)	\$ (52)
Loans	(1,209)	(1,106)	(1,246)
Investment securities	7,787	7,787	7,787
Current tax assets	(541)	(541)	(541)
Deferred tax assets	174	156	180
<b>Total assets</b>	<u>\$ 6,167</u>	<u>\$ 6,256</u>	<u>\$ 6,128</u>
Retained earnings	\$ (1,063)	(974)	(1,102)
Accumulated other comprehensive income	7,230	7,230	7,230
<b>Total equity</b>	<u>6,167</u>	<u>6,256</u>	<u>6,128</u>
	<u>\$ 6,167</u>	<u>\$ 6,256</u>	<u>\$ 6,128</u>
	<b>For the period ended March 31, 2010</b>	<b>For the year ended December 31, 2010</b>	
<b>Interim consolidated statement of profit or loss</b>	Increase (Decrease)	Increase (Decrease)	
Interest income	\$ 37	\$ 152	
Change in fair value of financial instruments	8	12	
Provision (recovery) of credit losses	-	(12)	
Income tax	(6)	(24)	
<b>Total profit or loss</b>	<u>\$ 39</u>	<u>\$ 128</u>	

**Central 1 Credit Union**  
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4) Reclassification and presentation changes

Adoption of IFRS resulted in changes to financial presentation.

<b>Interim consolidated statement of financial position</b>	(Thousands of dollars)		
	<b>As at March 31, 2010</b>	<b>As at December 31, 2010</b>	<b>As at January 1, 2010</b>
	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Pledged trading assets	\$ 738,541	\$ 160,747	\$ 461,737
Non-pledged trading assets	3,769,601	4,586,047	3,982,120
Derivative assets held for risk management	119,321	56,399	128,434
Investment securities	(4,508,142)	(4,746,794)	(4,443,858)
Current tax assets	14,000	3,645	12,665
Intangible assets	3,545	4,106	3,612
Deferred tax assets	4,873	4,357	5,814
Investment in affiliates	124,317	128,862	123,718
Other assets	<u>(266,056)</u>	<u>(197,369)</u>	<u>(274,242)</u>
<b>Total assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Deposits designated as trading	2,126,097	2,074,718	1,808,022
Derivative liabilities held for risk management	69,383	80,123	65,936
Deposits from members	(2,126,097)	(2,074,718)	(1,808,022)
Deferred tax liabilities	3,013	1,512	2,818
Other liabilities	<u>(72,396)</u>	<u>(81,635)</u>	<u>(68,754)</u>
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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The aggregate impact of these changes on the interim consolidated statement of financial position as at March 31, 2010 is as follows:

(Thousands of dollars)

	Canadian GAAP	Transition to IFRS Increase (Decrease)	IFRS
<b>Assets</b>			
Cash and cash equivalents	\$ 106,504	\$ (117)	\$ 106,387
Deposits with regulated financial institutions	142,772	5,154	147,926
Pledged trading assets	-	738,541	738,541
Reinvestment assets under the CMB and IMPP Programs	-	1,108,108	1,108,108
Non-pledged trading assets	-	3,254,463	3,254,463
Derivatives held for risk management	-	157,910	157,910
Loans	1,214,335	(2,346)	1,211,989
Investment securities	8,582,349	(4,549,046)	4,033,303
Secured loans to members	-	2,692,412	2,692,412
Current tax assets	-	13,560	13,560
Property and equipment	14,899	1,954	16,853
Intangible assets	-	3,545	3,545
Deferred tax assets	-	5,660	5,660
Investment in affiliates	-	124,317	124,317
Other	359,013	(255,626)	103,387
<b>Total assets</b>	<b>\$ 10,419,872</b>	<b>\$ 3,298,489</b>	<b>\$ 13,718,361</b>
<b>Liabilities</b>			
Deposits designated as trading	\$ -	\$ 2,123,097	\$ 2,123,097
Derivatives held for risk management	-	69,383	69,383
Debt securities issued	459,079	-	459,079
Deposits from members	7,995,542	(2,137,537)	5,858,005
Obligations under the CMB and IMPP Programs	-	3,279,742	3,279,742
Subordinated liabilities	202,634	-	202,634
Provisions	-	6,453	6,453
Securities under repurchase agreements	1,018,362	-	1,018,362
Deferred tax liabilities	-	3,769	3,769
Other	195,037	(68,669)	126,368
<b>Total liabilities</b>	<b>9,870,654</b>	<b>3,276,238</b>	<b>13,146,892</b>
<b>Equity</b>			
Share capital	162,580	-	162,580
Contributed surplus	87,901	-	87,901
Retained earnings	271,893	149	272,042
Accumulated other comprehensive income	26,844	7,214	34,058
Reserves	-	6,516	6,516
Total Equity attributable to members of Central 1	549,218	13,879	563,097
Non-controlling interest	-	8,372	8,372
<b>Total equity</b>	<b>549,218</b>	<b>22,251</b>	<b>571,469</b>
	<b>\$ 10,419,872</b>	<b>\$ 3,298,489</b>	<b>\$ 13,718,361</b>

**Central 1 Credit Union**  
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The aggregate impact of these changes on the interim statement of profit or loss and the interim statement of comprehensive income for the period ended March 31, 2010 is as follows:

(Thousands of dollars)

Interim statement of profit or loss	Canadian GAAP	Transition to IFRS Increase (Decrease)	IFRS
<b>Financial income</b>			
Securities	\$ 43,006	\$ (5,612)	\$ 37,394
Deposits with regulated financial institutions	229	39	268
Loans	4,757	37	4,794
Secured loans and reinvestment assets	-	29,774	29,774
	<u>47,992</u>	<u>24,238</u>	<u>72,230</u>
<b>Financial expense</b>			
Debt securities issued	1,447	33	1,480
Deposits from members	26,766	(37)	26,729
Obligations under the CMB and IMPP programs	-	28,950	28,950
Subordinated debt	2,057	-	2,057
	<u>30,270</u>	<u>28,946</u>	<u>59,216</u>
Interest margin	17,722	(4,708)	13,014
Gain on disposal of financial instruments	7,032	-	7,032
Change in fair value of financial instruments	(6,468)	(68)	(6,536)
Net financial income	18,286	(4,776)	13,510
Provision (recovery) for credit losses	(93)	-	(93)
	18,379	(4,776)	13,603
Other income	21,450	2,236	23,686
Net financial and other income	<u>39,829</u>	<u>(2,540)</u>	<u>37,289</u>
<b>Operating expenses</b>			
Salaries and employee benefits	13,144	48	13,192
Premises and equipment	2,174	70	2,244
Other administrative expenses	10,765	2,441	13,206
	<u>26,083</u>	<u>2,559</u>	<u>28,642</u>
Profit before income taxes	13,746	(5,099)	8,647
Income taxes	1,885	(710)	1,175
<b>Profit for the period</b>	<u>\$ 11,861</u>	<u>\$ (4,389)</u>	<u>\$ 7,472</u>
<b>Other comprehensive income (net of tax)</b>			
Net unrealized gains (losses) on available-for-sale assets	\$ (6,659)	\$ (16)	\$ (6,675)
Reclassification of losses (gains) on available for sale assets	(5,313)	-	(5,313)
	<u>(11,972)</u>	<u>(16)</u>	<u>(11,988)</u>
<b>Comprehensive income</b>	<u>\$ (111)</u>	<u>\$ (4,405)</u>	<u>\$ (4,516)</u>

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The aggregate impact of these changes on equity for the three-month ended March 31, 2010 is as follows:

(Thousands of dollars)

	Share Capital	Contributed Surplus	Fair Value Reserves	Other Reserves	Retained Earnings	Equity Attributable to Members	Non-Controlling Interest	Total Equity
CGAAP:	\$ 162,580	\$ 87,901	\$ 26,844	\$ -	\$ 271,893	\$ 549,218	\$ -	\$ 549,218
IFRS Adjustments								
Additional subsidiaries				6,516		6,516	8,372	14,888
Adoption of derecognition standard					(7,588)	(7,588)	-	(7,588)
Property and equipment					6,543	6,543	-	6,543
Employee benefits					2,257	2,257	-	2,257
Financial instruments	-	-	7,214	-	(1,063)	6,151	-	6,151
	-	-	7,214	6,516	149	13,879	8,372	22,251
	\$ 162,580	\$ 87,901	\$ 34,058	\$ 6,516	\$ 272,042	\$ 563,097	\$ 8,372	\$ 571,469

**Central 1 Credit Union**  
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The aggregate impact of these changes on the consolidated statement of financial position as at December 31, 2010 is as follows:

(Thousands of dollars)

	Canadian GAAP	Transition to IFRS Increase (Decrease)	IFRS
<b>Assets</b>			
Cash and cash equivalents	\$ 121,337	\$ (43)	\$ 121,294
Deposits with regulated financial institutions	135,358	5,207	140,565
Pledged trading assets	-	160,747	160,747
Reinvestment assets under the CMB and IMPP Programs	-	1,643,986	1,643,986
Non-pledged trading assets	-	4,253,134	4,253,134
Derivatives held for risk management	-	129,096	129,096
Loans	1,110,286	(1,106)	1,109,180
Investment securities	8,740,182	(4,777,906)	3,962,276
Secured loans to members	-	1,929,850	1,929,850
Current tax assets	-	3,185	3,185
Property and equipment	15,088	2,001	17,089
Deferred tax assets	-	5,721	5,721
Intangible assets	-	4,106	4,106
Investment in affiliates	-	128,862	128,862
Other	253,331	(193,615)	59,716
<b>Total assets</b>	<b>\$ 10,375,582</b>	<b>\$ 3,293,225</b>	<b>\$ 13,668,807</b>
<b>Liabilities</b>			
Deposits designated as trading	\$ -	\$ 2,072,592	\$ 2,072,592
Derivatives held for risk management	-	80,123	80,123
Debt securities issued	620,524	-	620,524
Deposits from members	8,620,365	(2,084,451)	6,535,914
Obligations under the CMB and IMPP Programs	-	3,280,112	3,280,112
Subordinated liabilities	200,574	-	200,574
Provisions	-	6,453	6,453
Securities under repurchase agreements	162,358	-	162,358
Deferred tax liabilities	-	2,138	2,138
Other	195,539	(80,686)	114,853
<b>Total liabilities</b>	<b>9,799,360</b>	<b>3,276,281</b>	<b>13,075,641</b>
<b>Equity</b>			
Share capital	164,983	-	164,983
Contributed surplus	87,901	-	87,901
Retained earnings	303,885	(3,759)	300,126
Accumulated other comprehensive income	19,453	6,737	26,190
Reserves	-	5,594	5,594
Total Equity attributable to members of Central 1	576,222	8,572	584,794
Non-controlling interest	-	8,372	8,372
<b>Total equity</b>	<b>576,222</b>	<b>16,944</b>	<b>593,166</b>
	<b>\$ 10,375,582</b>	<b>\$ 3,293,225</b>	<b>\$ 13,668,807</b>

**Central 1 Credit Union**  
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The aggregate impact of these changes on the Statement of profit or loss and the Statement of comprehensive income for the period ended December 31, 2010 is as follows:

(Thousands of dollars)

Statement of profit or loss	Canadian GAAP	Transition to IFRS Increase (Decrease)	IFRS
<b>Financial income</b>			
Securities	\$ 180,382	\$ (14,809)	\$ 165,573
Deposits with regulated financial institutions	1,264	152	1,416
Loans	22,149	152	22,301
Secured loans and reinvestment assets	-	117,317	117,317
	<u>203,795</u>	<u>102,812</u>	<u>306,607</u>
<b>Financial expense</b>			
Debt securities issued	11,739	349	12,088
Deposits from members	116,801	(312)	116,489
Obligations under the CMB and IMPP programs	-	117,545	117,545
Subordinated debt	8,267	-	8,267
	<u>136,807</u>	<u>117,582</u>	<u>254,389</u>
Interest margin	66,988	(14,770)	52,218
Gain on disposal of financial instruments	42,815	1,180	43,995
Change in fair value of financial instruments	(26,758)	7,973	(18,785)
Net financial income	83,045	(5,617)	77,428
Provision (recovery) for credit losses	4,393	12	4,405
	<u>78,652</u>	<u>(5,629)</u>	<u>73,023</u>
Other income	90,865	8,758	99,623
Net financial and other income	<u>169,517</u>	<u>3,129</u>	<u>172,646</u>
<b>Operating expenses</b>			
Salaries and employee benefits	53,451	184	53,635
Premises and equipment	9,985	98	10,083
Administrative expenses	50,683	10,098	60,781
	<u>114,119</u>	<u>10,380</u>	<u>124,499</u>
Profit before income taxes	55,398	(7,251)	48,147
Income taxes	5,335	(829)	4,506
<b>Profit for the year</b>	<u>\$ 50,063</u>	<u>\$ (6,422)</u>	<u>\$ 43,641</u>
<b>Other comprehensive income (net of tax)</b>			
Net unrealized gains (losses) on available-for-sale assets	\$ 3,152	\$ (493)	\$ 2,659
Reclassification of losses (gains) on available for sale assets	(22,515)	-	(22,515)
Actuarial losses on employee future benefit plans	-	(2,797)	(2,797)
	<u>(19,363)</u>	<u>(3,290)</u>	<u>(22,653)</u>
<b>Comprehensive Income</b>	<u>\$ 30,700</u>	<u>\$ (9,712)</u>	<u>\$ 20,988</u>

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The aggregate impact of these changes on total equity as at December 31, 2010 is as follows:  
(Thousands of dollars)

	Share Capital	Contributed Surplus	Fair Value Reserve	Other Reserves	Retained Earnings	Equity Attributable to Members	Non-Controlling Interest	Total Equity
CGAAP:	\$ 164,983	\$ 87,901	\$ 19,453	\$ -	\$ 303,885	\$ 576,222	\$ -	\$ 576,222
IFRS Adjustments								
Additional subsidiaries				5,594	2	5,596	8,372	13,968
Adoption of derecognition standard			(493)		(8,609)	(9,102)	-	(9,102)
Property and equipment					6,472	6,472	-	6,472
Employee benefits					(650)	(650)	-	(650)
Financial instruments	-	-	7,230	-	(974)	6,256	-	6,256
	-	-	6,737	5,594	(3,759)	8,572	8,372	16,944
	\$ 164,983	\$ 87,901	\$ 26,190	\$ 5,594	\$ 300,126	\$ 584,794	\$ 8,372	\$ 593,166

**Central 1 Credit Union**  
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The aggregate impact of these changes on the consolidated statement of financial position as at January 1, 2010 is as follows:

(Thousands of dollars)

	Canadian GAAP	Transition to IFRS Increase (Decrease)	IFRS
<b>Assets</b>			
Cash and cash equivalents	\$ 202,591	\$ (28)	\$ 202,563
Deposits with regulated financial institutions	54,753	5,118	59,871
Pledged trading assets	-	461,737	461,737
Reinvestment assets under the CMB and IMPP programs	-	954,820	954,820
Non-pledged trading assets	-	3,412,287	3,412,287
Derivatives held for risk management	-	171,332	171,332
Loans	2,165,958	(1,246)	2,164,712
Investment securities	8,254,183	(4,486,195)	3,767,988
Secured loans to members	-	2,906,205	2,906,205
Current tax assets	-	12,213	12,213
Property and equipment	14,259	2,112	16,371
Intangible assets	-	3,612	3,612
Deferred tax assets	-	5,894	5,894
Investment in affiliates	-	123,718	123,718
Other	363,901	(269,105)	94,796
<b>Total assets</b>	<u>\$ 11,055,645</u>	<u>\$ 3,302,474</u>	<u>\$ 14,358,119</u>
<b>Liabilities</b>			
Deposits designated as trading	\$ -	\$ 1,805,022	\$ 1,805,022
Derivatives held for risk management	-	65,936	65,936
Debt securities issued	465,289	-	465,289
Deposits from members	8,879,977	(1,818,250)	7,061,727
Obligations under the CMB and IMPP Programs	-	3,284,467	3,284,467
Subordinated liabilities	200,577	-	200,577
Provisions	-	6,376	6,376
Securities under repurchase agreements	748,654	-	748,654
Deferred tax liabilities	-	3,584	3,584
Other	209,795	(71,317)	138,478
<b>Total liabilities</b>	<u>10,504,292</u>	<u>3,275,818</u>	<u>13,780,110</u>
<b>Equity</b>			
Share capital	162,580	-	162,580
Contributed surplus	87,901	-	87,901
Retained earnings	262,056	4,429	266,485
Accumulated other comprehensive income	38,816	7,230	46,046
Reserves	-	6,625	6,625
Total Equity attributable to members of Central 1	551,353	18,284	569,637
Non-controlling interest	-	8,372	8,372
<b>Total equity</b>	<u>551,353</u>	<u>26,656</u>	<u>578,009</u>
	<u>\$ 11,055,645</u>	<u>\$ 3,302,474</u>	<u>\$ 14,358,119</u>

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The aggregate impact of these changes on total equity as at January 1, 2010 is as follows:  
(Thousands of dollars)

	Share Capital	Contributed Surplus	Fair Value Reserve	Other Reserves	Retained Earnings	Equity Attributable to Members	Non-Controlling Interest	Total Equity
CGAAP:	\$ 162,580	\$ 87,901	\$ 38,816	\$ -	\$ 262,056	\$ 551,353	\$ -	\$ 551,353
IFRS Adjustments								
Additional subsidiaries				6,625		6,625	8,372	14,997
Adoption of derecognition standard					(3,394)	(3,394)	-	(3,394)
Property and equipment					6,627	6,627	-	6,627
Employee benefits					2,298	2,298	-	2,298
Financial instruments	-	-	7,230	-	(1,102)	6,128	-	6,128
	-	-	7,230	6,625	4,429	18,284	8,372	26,656
	\$ 162,580	\$ 87,901	\$ 46,046	\$ 6,625	\$ 266,485	\$ 569,637	\$ 8,372	\$ 578,009

Consistent with Central's accounting policy choice under IAS 7, *Statement of Cash Flows*, interest received, interest paid and taxes paid have been moved into the body of the statement of cash flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

**5. Use of estimates and judgments**

***Allowance for credit losses***

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy (Note 3(c)).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed and approved by management.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic condition. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

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***Determining fair value***

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy (Note 3(c)). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also Note 6 “Fair value of financial instruments” for further discussion.

***Securizations***

In applying its policies on securitized financial assets, Central has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Central over the other entity:

- When Central, in substance, controls the entity to which financial assets have been transferred, the entity is included in these interim consolidated financial statements and the transferred assets are recognized in Central’s interim consolidated statement of financial position.
- When Central transfers financial assets to an unconsolidated entity and it retains substantially all the risk and rewards relating to the transferred assets, the transferred assets are recognized in Central’s interim consolidated statement of financial position.
- When Central transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognized from Central’s interim consolidated statement of financial position
- When Central neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, Central continues to recognize the transferred financial asset to the extent of its continuing involvement in that transferred financial asset.

Details of Central’s securitization activities are given in Note 12.

***Income taxes***

Central computes an income tax provision in each of the jurisdictions in which it operates. However, the actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Estimation of income taxes includes reevaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

In interim periods, the income tax provision is based on an estimate of projected annual earnings by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings by jurisdiction. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods.

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***Pension and post-retirement benefits***

Central sponsors defined benefit plans providing pension and other post-retirement benefits to cover employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

**6. Fair value of financial instruments**

Certain financial instruments are recognized in the interim consolidated statements of financial position at fair value. These include derivative instruments, deposits designated as trading and securities and amounts on deposit classified either as available-for-sale or held for trading. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market.

Where independent quoted market prices do not exist, Central uses the quoted market prices for similar securities, other third party evidence or valuation techniques. Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above. The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates.

*Financial instruments whose book values approximate fair value*

Fair value is assumed to be equal to carrying value for cash, demand loans classified as loans and receivable and demand deposits classified as other liabilities because of their short-term nature.

*Financial instruments for which fair value is determined using valuation techniques*

The fair value of fixed rate performing loans is determined by discounting contractual cash flows at market interest rates. For both loans to and deposits with members, Central discounts the expected cash flows using interest rates currently being offered on instruments with similar terms. The fair values of notes and subordinated debt is determined by discounting remaining cash flows by reference to current market yields on similar instruments.

*Fair value of assets and liabilities classified using the fair value hierarchy*

Central measures fair value using the following hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.

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Level 2 – Valuation technique based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

The following table presents the fair value of Central's assets and liabilities classified in accordance with the fair value hierarchy.

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	(Millions of dollars)					
March 31, 2011	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost <sup>1</sup>	Total Carrying Value
<b>Assets</b>						
Cash and cash equivalents	\$ 170.7	\$ -	\$ -	\$ 170.7	\$ -	\$ 170.7
Deposits with regulated financial institutions	-	125.6	-	125.6	12.8	138.4
Pledged trading assets	-	158.3	-	158.3	-	158.3
Reinvestment assets under the CMB and IMPP programs	-	1,786.8	-	1,786.8	-	1,786.8
Non-pledged trading assets	-	4,492.1	1.0	4,493.1	-	4,493.1
Derivative assets	-	156.1	-	156.1	-	156.1
Loans	-	-	-	-	1,374.8	1,374.8
Investment securities	-	3,851.6	10.3	3,861.9	41.8	3,903.7
Secured loans to members	-	-	1,751.8	1,751.8	-	1,751.8
Current tax assets	-	-	-	-	4.0	4.0
Property and equipment	-	-	-	-	17.2	17.2
Intangible assets	-	-	-	-	3.4	3.4
Investment in affiliates	-	-	-	-	129.0	129.0
Deferred tax assets	-	-	-	-	4.9	4.9
Other	-	3.7	-	3.7	54.0	57.7
<b>Total assets</b>	<u>\$ 170.7</u>	<u>\$ 10,574.2</u>	<u>\$ 1,763.1</u>	<u>\$ 12,508.0</u>	<u>\$ 1,641.9</u>	<u>\$ 14,149.9</u>
<b>Liabilities</b>						
Deposits designated as trading	\$ -	\$ 2,221.1	\$ -	\$ 2,221.1	\$ -	\$ 2,221.1
Derivative liabilities	-	80.8	-	80.8	-	80.8
Debt securities issued	-	-	-	-	603.5	603.5
Deposits from members	-	-	-	-	6,821.3	6,821.3
Obligations under the CMB and IMPP Programs	-	3,276.8	-	3,276.8	-	3,276.8
Subordinated liabilities	-	-	-	-	202.6	202.6
Provisions	-	-	-	-	6.2	6.2
Securities under repurchase agreements	-	-	-	-	166.4	166.4
Deferred tax liabilities	-	-	-	-	3.1	3.1
Other	-	-	-	-	167.1	167.1
<b>Total liabilities</b>	<u>-</u>	<u>5,578.7</u>	<u>-</u>	<u>5,578.7</u>	<u>7,970.2</u>	<u>13,548.9</u>
<b>Net Assets</b>	<u>\$ 170.7</u>	<u>\$ 4,995.5</u>	<u>\$ 1,763.1</u>	<u>\$ 6,929.3</u>	<u>\$(6,328.3)</u>	<u>\$ 601.0</u>
December 31, 2010	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost <sup>1</sup>	Total Carrying Value
Assets	\$ 121.3	\$ 10,209.8	\$ 1,941.9	\$ 12,273.0	\$ 1,395.8	\$ 13,668.8
Liabilities	<u>-</u>	<u>5,432.8</u>	<u>-</u>	<u>5,432.8</u>	<u>7,642.8</u>	<u>13,075.6</u>
<b>Net Assets</b>	<u>\$ 121.3</u>	<u>\$ 4,777.0</u>	<u>\$ 1,941.9</u>	<u>\$ 6,840.2</u>	<u>\$(6,247.0)</u>	<u>\$ 593.2</u>

<sup>1</sup>Amounts carried at amortized cost include financial instruments classified as held to maturity, loans and receivable or other liabilities.

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The following table presents the changes in fair value for financial instruments included in Level 3 of the fair value hierarchy:

	(Millions of dollars)					
	<u>Fair Value</u> <u>at Jan 1,</u> <u>2011</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Transfers</u>	<u>Changes in</u> <u>fair value of</u> <u>assets in</u> <u>profit or loss</u>	<u>Fair Value</u> <u>at March 31,</u> <u>2011</u>
<b>Assets</b>						
Securities - Trading	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ 1.0
Securities – Available for sale	1.9	1.4	(1.9)	-	-	1.4
Secured loans to members	1,929.9		(173.3)		(4.8)	1,751.8
Equity shares	<u>9.1</u>	<u>-</u>	<u>(0.2)</u>	<u>-</u>	<u>-</u>	<u>8.9</u>
	<u>\$ 1,941.9</u>	<u>\$ 1.4</u>	<u>\$ (175.4)</u>	<u>\$ -</u>	<u>\$ (4.8)</u>	<u>\$ 1,763.1</u>
	<u>Fair Value</u> <u>at Jan 1,</u> <u>2010</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Transfers</u>	<u>Changes in</u> <u>fair value of</u> <u>assets in</u> <u>profit or loss</u>	<u>Fair Value</u> <u>at December</u> <u>31, 2010</u>
<b>Assets</b>	<u>\$ 2,938.9</u>	<u>\$ 1.9</u>	<u>\$ (947.4)</u>	<u>\$ (18.4)</u>	<u>\$ (33.1)</u>	<u>\$ 1,941.9</u>

**7. Deposits with regulated financial institutions**

Amounts on deposit with regulated financial institutions classified as loans and receivables are as follows:  
(Thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amortized cost	<u>\$ 12,826</u>	<u>\$ 22,242</u>	<u>\$ 12,965</u>	<u>\$ 32,150</u>
Fair value	<u>\$ 12,979</u>	<u>\$ 22,732</u>	<u>\$ 13,202</u>	<u>\$ 32,859</u>

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Amounts on deposit with regulated financial institutions classified as available-for-sale are as follows:

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amortized cost	<u>\$ 125,544</u>	<u>\$ 125,526</u>	<u>\$ 125,526</u>	<u>\$ 27,524</u>
Fair value	<u>\$ 125,561</u>	<u>\$ 125,684</u>	<u>\$ 127,600</u>	<u>\$ 27,721</u>

The total of amounts on deposit with regulated financial institutions recorded in the interim consolidated statements of financial position are as follows:

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
	<u>\$ 138,387</u>	<u>\$ 147,926</u>	<u>\$ 140,565</u>	<u>\$ 59,871</u>

**8. Trading assets**

Trading assets included in the interim consolidated statements of financial position are as follows:

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Government & guarantees	<u>\$ 2,880,976</u>	<u>\$ 3,166,920</u>	<u>\$ 3,196,963</u>	<u>\$ 3,156,900</u>
Corporate & major financial institutions	<u>1,693,527</u>	<u>749,306</u>	<u>1,125,366</u>	<u>677,886</u>
Other	<u>76,917</u>	<u>76,778</u>	<u>91,552</u>	<u>39,238</u>
Fair value	<u>\$ 4,651,420</u>	<u>\$ 3,993,004</u>	<u>\$ 4,413,881</u>	<u>\$ 3,874,024</u>

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amortized cost	<u>\$ 4,635,076</u>	<u>\$ 3,991,284</u>	<u>\$ 4,354,736</u>	<u>\$ 3,873,514</u>
Fair value	<u>\$ 4,651,420</u>	<u>\$ 3,993,004</u>	<u>\$ 4,413,881</u>	<u>\$ 3,874,024</u>

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Pledged assets are those financial assets that may be repledged or sold by counterparties. Total pledged assets are as indicated below:

(Thousands of dollars).

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Trading assets	\$ 158,293	\$ 738,541	\$ 160,747	\$ 461,737
Amounts included in investment securities	<u>19,352</u>	<u>363,050</u>	<u>15,612</u>	<u>359,461</u>
	<u>\$ 177,645</u>	<u>\$ 1,101,591</u>	<u>\$ 176,359</u>	<u>\$ 821,198</u>

**9. Derivative assets**

(Thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Interest rate swaps				
- Derivative contracts used to manage interest rate risk	\$ 84,172	\$ 91,728	\$ 52,628	\$ 105,820
- Derivative contracts used to manage interest rate risk under the CMB and IMPP Programs (note 12)	<u>70,042</u>	<u>63,299</u>	<u>74,757</u>	<u>65,149</u>
	<u>154,214</u>	155,027	127,385	170,969
Foreign exchange derivative contracts	<u>1,890</u>	<u>2,883</u>	<u>1,711</u>	<u>363</u>
	<u>\$ 156,104</u>	<u>\$ 157,910</u>	<u>\$ 129,096</u>	<u>\$ 171,332</u>

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**10. Loans**

(Thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Due on demand - Credit unions	\$ 44,860	\$ 34,374	\$ 61,476	\$ 36,660
- Commercial and others	<u>11,325</u>	<u>11,296</u>	<u>5,033</u>	<u>2,692</u>
	<u>56,185</u>	<u>45,670</u>	<u>66,509</u>	<u>39,352</u>
Term - Credit unions	1,101,981	1,018,863	895,362	1,965,818
- Commercial and others	204,264	132,704	137,692	145,060
- Officers and employees	<u>17,875</u>	<u>16,797</u>	<u>16,647</u>	<u>17,374</u>
	<u>1,324,120</u>	<u>1,168,364</u>	<u>1,049,701</u>	<u>2,128,252</u>
	1,380,305	1,214,034	1,116,210	2,167,604
Accrued interest	<u>3,684</u>	<u>4,342</u>	<u>2,468</u>	<u>3,588</u>
	1,383,989	1,218,376	1,118,678	2,171,192
Allowance for credit losses	<u>(9,154)</u>	<u>(6,387)</u>	<u>(9,498)</u>	<u>(6,480)</u>
	<u>\$ 1,374,835</u>	<u>\$ 1,211,989</u>	<u>\$ 1,109,180</u>	<u>\$ 2,164,712</u>

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 1.53% to 4.80%.

Impaired loans are as follows:

	Gross Impaired	Specific Allowance	Collective Allowance	Net Impaired			
				<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Credit unions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and others	<u>11,562</u>	<u>(8,354)</u>	<u>(800)</u>	<u>2,408</u>	<u>3,170</u>	<u>1,152</u>	<u>3,085</u>
Total	<u>\$ 11,562</u>	<u>\$ (8,354)</u>	<u>\$ (800)</u>	<u>\$ 2,408</u>	<u>\$ 3,170</u>	<u>\$ 1,152</u>	<u>\$ 3,085</u>

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The activity in the allowance for credit losses during the year and the resulting year-end balances are as follows:

	Specific Allowance	Collective Allowance	(Thousands of dollars)		
			<u>For the period ended</u>	<u>For the period ended</u>	<u>For the year ended</u>
			<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>
Balance at beginning of period	\$ 8,689	\$ 809	\$ <b>9,498</b>	\$ 6,480	\$ 6,480
Net write-offs during the period	(332)	-	(332)	-	(1,387)
Provision (recovery) for credit losses	(3)	(9)	(12)	(93)	4,405
Balance at end of period	<u>\$ 8,354</u>	<u>\$ 800</u>	<u>\$ <b>9,154</b></u>	<u>\$ 6,387</u>	<u>\$ 9,498</u>

**11. Investment securities**

Securities classified as held to maturity are as follows:

	(Thousands of dollars)			
	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Amortized cost	<u>\$ 9,731</u>	<u>\$ 36,180</u>	<u>\$ 26,875</u>	<u>\$ 37,287</u>
Fair value	<u>\$ 9,702</u>	<u>\$ 36,017</u>	<u>\$ 26,801</u>	<u>\$ 36,877</u>

Securities classified as available-for-sale are as follows:

	(Thousands of dollars)			
	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Amortized cost	<u>\$ 3,885,065</u>	<u>\$ 3,966,035</u>	<u>\$ 3,906,573</u>	<u>\$ 3,685,664</u>
Fair value	<u>\$ 3,893,966</u>	<u>\$ 3,997,123</u>	<u>\$ 3,935,401</u>	<u>\$ 3,730,701</u>

The total amount of securities recorded in the interim consolidated statements of financial position are as follows:

	(Thousands of dollars)			
	<u>March 31, 2011</u>	<u>March 31, 2010</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
	<u>\$ 3,903,697</u>	<u>\$ 4,033,303</u>	<u>\$ 3,962,276</u>	<u>\$ 3,767,988</u>

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The composition of Central's securities portfolio is as follows:

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Government & guarantees	\$ <b>902,296</b>	\$ 1,417,440	\$ 770,464	\$ 1,362,687
Corporate & major financial Institutions				
R-1(Mid) or greater	<b>2,907,016</b>	2,490,637	3,081,032	2,282,574
Other	<u><b>94,385</b></u>	<u>125,226</u>	<u>110,780</u>	<u>122,727</u>
	<u><b>\$ 3,903,697</b></u>	<u>\$ 4,033,303</u>	<u>\$ 3,962,276</u>	<u>\$ 3,767,988</u>

The above table includes \$32.1 million (March 31, 2010 - \$32.1 million; December 31, 2010 - \$32.1 million; January 1, 2010 - \$32.1 million) of equity investment securities that are measured at cost and for which disclosure of fair value is not provided because the fair value cannot be reliably measured.

At the period-end, securities having a par value of **\$384.3** million (March 31, 2010 - \$290.5 million; December 31, 2010 - \$ 384.3 million; January 1, 2010 - \$300.5 million) were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments. In addition, at period end, Central had pledged securities with a par value of **\$nil** million (March 31, 2010 - \$885.6 million; December 31, 2010 - \$nil million; January 1, 2010 - \$762.1 million) to the Bank of Canada under the Term Purchase and Resale Agreement Facility.

**12. Secured loans to members**

Through its participation in the CMB and IMPP programs as described in Note 3(g), Central has acquired mortgages from its member credit unions and created NHA MBS as indicated:

(Par amount of MBS pools in thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Total initial par amount of MBS pools outstanding at the end of the period	\$ <b>4,240,559</b>	\$ 4,240,559	\$ 4,240,559	\$ 4,240,559
Initial par amount of MBS pools retained by Central	<u><b>(1,065,259)</b></u>	<u>(1,065,259)</u>	<u>(1,065,259)</u>	<u>(1,065,259)</u>
Initial Par value of pools transferred to CHT or CMHC under the CMB and IMPP programs	<u><b>\$ 3,175,300</b></u>	<u>\$ 3,175,300</u>	<u>\$ 3,175,300</u>	<u>\$ 3,175,300</u>

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Under these programs, Central recognizes its interest in the underlying residential mortgages as secured loans from its member credit unions. The par amounts outstanding on these secured loans are as follows:

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Total amount of secured loans issued outstanding at the end of the period	\$ <b>4,240,559</b>	\$ 4,240,559	\$ 4,240,559	\$ 4,240,559
Aggregate principle payments received	<u>(2,520,243)</u>	<u>(1,604,528)</u>	<u>(2,348,649)</u>	<u>(1,411,196)</u>
Remaining par value of secured loans to members in the Statement of financial position	<u>\$ 1,720,316</u>	<u>\$ 2,636,031</u>	<u>\$ 1,891,910</u>	<u>\$ 2,829,363</u>

The components of these balances are as follows:

Remaining par value of secured loans under the CMB and IMPP programs	\$ <b>1,091,127</b>	\$ 1,772,504	\$ 1,215,353	\$ 1,913,001
Remaining par value of secured loans retained by Central	<u>629,189</u>	<u>863,527</u>	<u>676,557</u>	<u>916,362</u>
	<u>\$ 1,720,316</u>	<u>\$ 2,636,031</u>	<u>\$ 1,891,910</u>	<u>\$ 2,829,363</u>

The Secured loans are recognized at fair value in the interim consolidated statements of financial position are as follows:

Amortized cost	<u>\$ 1,730,149</u>	<u>\$ 2,651,311</u>	<u>\$ 1,903,352</u>	<u>\$ 2,846,623</u>
Fair value	<u>\$ 1,751,822</u>	<u>\$ 2,692,412</u>	<u>\$ 1,929,850</u>	<u>\$ 2,906,205</u>

*Valuation of secured loans to members*

Key inputs into the model used to determine the fair value of secured loans to members include interest rates and mortgage prepayment rate. The following table summarizes the pre-tax impact of a sustained 200 basis points increase or decrease in interest rates used to determine the fair value of secured loans and equity.

	(Thousands of dollars)			
	As at March 31, 2011	As at March 31, 2010	As at December 31, 2010	As at January 1, 2010
<b><i>Change in value of secured loans to members:</i></b>	<b>Increase (Decrease)</b>	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
200 bps parallel increase in interest rates	(14,181)	(39,054)	(19,963)	(43,162)
200 bps parallel decrease in interest rates	14,854	40,934	20,939	45,588

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Mortgage prepayment rate changes the expected principal and interest cash flows of the secured loans. The pre-tax impact of a one percent increase or decrease in prepayment rate on the fair value of secured loans was less than one percent of equity as at each balance sheet date presented.

Central has recognized its obligations to CHT under the CMB program and to CMHC under the IMPP program at fair value in the Statement of Financial position. The contractual maturity dates of these obligations are as indicated below.

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amount due within one year	\$ 22,909	\$ -	\$ 22,909	\$ -
Amount due after one year, but within five years	<u>3,120,586</u>	<u>3,143,495</u>	<u>3,120,586</u>	<u>3,143,495</u>
	<u>3,143,495</u>	<u>3,143,495</u>	<u>3,143,495</u>	<u>3,143,495</u>
Accrued interest	<u>28,076</u>	<u>29,388</u>	<u>13,220</u>	<u>14,586</u>
Amortized cost	<u>\$ 3,171,571</u>	<u>\$ 3,172,883</u>	<u>\$ 3,156,715</u>	<u>\$ 3,158,081</u>
Fair value	<u>\$ 3,276,847</u>	<u>\$ 3,279,742</u>	<u>\$ 3,280,112</u>	<u>\$ 3,284,467</u>

As principal and interest payments on the underlying mortgage assets are received, Central is required to reinvest those assets in on behalf of CHT and CMHC. These Reinvestment assets, which are recognized in the interim consolidated statement of financial position at fair value, are as follows:

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Government & guarantees	\$ 1,556,878	\$ 893,644	\$ 1,402,888	\$ 897,215
Assets acquired under reverse repurchase agreements	<u>151,066</u>	<u>181,268</u>	<u>162,256</u>	<u>30,828</u>
Other	<u>78,832</u>	<u>33,196</u>	<u>78,842</u>	<u>26,777</u>
Fair value	<u>\$ 1,786,776</u>	<u>\$ 1,108,108</u>	<u>\$ 1,643,986</u>	<u>\$ 954,820</u>
Amortized cost	<u>\$ 1,779,851</u>	<u>\$ 1,100,741</u>	<u>\$ 1,634,868</u>	<u>\$ 944,177</u>

Central has entered into derivative contracts to modify its exposure to interest rate risk under the programs which are recognized as derivatives in the interim consolidated statement of financial position (See Notes 9 and 16).

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**13. Deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

(Thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Deferred tax assets:				
Financial instruments	\$ 954	\$ 2,007	\$ 1,324	\$ 3,031
Securitization transactions	459	1,269	1,488	566
Employee future benefits	2,429	2,029	2,371	1,936
Other	<u>1,015</u>	<u>355</u>	<u>538</u>	<u>361</u>
	<u>4,857</u>	<u>5,660</u>	<u>5,721</u>	<u>5,894</u>
Deferred tax liabilities:				
Financial instruments	27	1,789	29	1,796
Employee future benefits	154	250	152	40
Property, plant and equipment	1,821	1,730	1,820	1,748
Other	<u>1,056</u>	<u>-</u>	<u>137</u>	<u>-</u>
	<u>3,058</u>	<u>3,769</u>	<u>2,138</u>	<u>3,584</u>
	<u>\$ 1,799</u>	<u>\$ 1,891</u>	<u>\$ 3,583</u>	<u>\$ 2,310</u>

Changes in deferred tax balances during the period ended March 31, 2011 were as follows:

	<u>Balance as at</u> <u>January 1,</u> <u>2011</u>	<u>Recognized</u> <u>in Profit or</u> <u>Loss</u>	<u>Recognized in</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u>	<u>Balance as</u> <u>at March 31,</u> <u>2011</u>
Deferred tax assets:				
Financial instruments	\$ 1,324	\$ (370)	\$ -	\$ 954
Securitization transactions (see Note 3(g))	1,488	(993)	(36)	459
Employee future benefits	2,371	58	-	2,429
Other	<u>538</u>	<u>477</u>	<u>-</u>	<u>1,015</u>
	<u>5,721</u>	<u>(828)</u>	<u>(36)</u>	<u>4,857</u>
Deferred tax liabilities:				
Financial instruments	29	(2)	-	27
Employee future benefits	152	2	-	154
Property, plant and equipment	1,820	1	-	1,821
Other	<u>137</u>	<u>931</u>	<u>(12)</u>	<u>1,056</u>
	<u>2,138</u>	<u>932</u>	<u>(12)</u>	<u>3,058</u>
	<u>\$ 3,583</u>	<u>\$ (1,760)</u>	<u>\$ (24)</u>	<u>\$ 1,799</u>

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Changes in deferred tax balances during the period ended March 31, 2010 were as follows:

	<u>Balance as at</u> <u>January 1,</u> <u>2010</u>	<u>Recognized</u> <u>in Profit or</u> <u>Loss</u>	<u>Recognized in</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u>	<u>Balance as</u> <u>at March 31,</u> <u>2010</u>
Deferred tax assets:				
Financial instruments	\$ 3,031	\$ (1,024)	\$ -	\$ 2,007
Securitization transactions (see Note 3g)	566	700	3	1,269
Employee future benefits	1,936	93	-	2,029
Other	<u>361</u>	<u>(6)</u>	<u>-</u>	<u>355</u>
	<u>5,894</u>	<u>(237)</u>	<u>3</u>	<u>5,660</u>
Deferred tax liabilities:				
Financial instruments	1,796	(7)	-	1,789
Employee future benefits	40	210	-	250
Property, plant and equipment	<u>1,748</u>	<u>(18)</u>	<u>-</u>	<u>1,730</u>
	<u>3,584</u>	<u>185</u>	<u>-</u>	<u>3,769</u>
	<u>\$ 2,310</u>	<u>\$ (422)</u>	<u>\$ 3</u>	<u>\$ 1,891</u>

**14. Other assets**

(Thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Assets available for sale designated as trading	\$ 3,718	\$ 8,715	\$ 4,043	\$ 9,470
Assets available for sale at amortized cost	<b>26,607</b>	65,648	33,268	62,517
Investment property	<b>6,666</b>	7,020	6,766	7,120
Accounts receivable and other	<b>12,425</b>	11,029	12,163	12,239
Prepaid expenses	<b>7,140</b>	9,227	2,394	3,170
Pension asset	<u>1,095</u>	<u>1,748</u>	<u>1,082</u>	<u>280</u>
	<u>\$ 57,651</u>	<u>\$ 103,387</u>	<u>\$ 59,716</u>	<u>\$ 94,796</u>

At period-end, the amortized cost of the assets available for sale designated as trading was **\$3,718** thousand (March 31, 2010 - \$8,536 thousand; December 31, 2010 - \$3,978 thousand; January 1, 2010 - \$9,148 thousand).

The fair value of Central's investment property has been arrived at on the basis of internal and external market information which reflects similar properties. The fair value of investment property as at the end of the period approximates its carrying value.

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Rental income from investment property is recorded in other income in profit or loss.

**15. Deposits designated as trading**

Deposits designated as trading are as follows:

(Thousands of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amortized cost	<u>\$ 2,215,854</u>	<u>\$2,111,217</u>	<u>\$ 2,064,833</u>	<u>\$1,786,465</u>
Fair value	<u>\$ 2,221,148</u>	<u>\$2,123,097</u>	<u>\$ 2,072,592</u>	<u>\$1,805,022</u>

The contractual maturity dates of these liabilities are as follows:

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amount				
- due within three months	\$ 301,965	\$ 112,830	\$ 327,093	\$ 86,043
- due after three months, but within one year	707,493	860,940	886,945	628,859
- due after one year, but within five years	<u>1,188,925</u>	<u>1,119,561</u>	<u>836,130</u>	<u>1,056,624</u>
	<u>2,198,383</u>	2,093,331	2,050,168	1,771,526
Accrued interest	<u>17,471</u>	<u>17,886</u>	<u>14,665</u>	<u>14,939</u>
Amortized cost	<u>\$ 2,215,854</u>	<u>\$ 2,111,217</u>	<u>\$ 2,064,833</u>	<u>\$ 1,786,465</u>

**16. Derivative liabilities**

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Interest rate swaps				
- Derivative contracts used to manage interest rate risk	\$ 77,277	\$ 69,383	\$ 78,893	\$ 65,936
- Derivative contracts used to manage interest rate risk under the CMB and IMPP Programs (Note 12)	<u>1,952</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>79,229</u>	69,383	78,893	65,936
Foreign exchange derivative contracts	<u>1,534</u>	<u>-</u>	<u>1,230</u>	<u>-</u>
	<u>\$ 80,763</u>	<u>\$ 69,383</u>	<u>\$ 80,123</u>	<u>\$ 65,936</u>

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**17. Debt securities issued**

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Operating lines				
- with Credit Union Central of Canada	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
Notes				
- due within three months	<b>330,174</b>	458,941	394,624	364,953
- due after three months and within one year	<b>45,449</b>	-	-	99,992
- due after one year and less than five years	<u>224,426</u>	_____ -	<u>224,354</u>	_____ -
	<b>600,049</b>	458,941	618,978	464,945
Accrued interest	<u>3,425</u>	_____ 138	_____ 1,546	_____ 344
	<u><b>\$ 603,474</b></u>	<u>\$ 459,079</u>	<u>\$ 620,524</u>	<u>\$ 465,289</u>

Central has established \$265.18 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits.

At March 31, 2011, no amounts were drawn against these facilities. (March 31, 2010 - \$0.0 million; December 31, 2010 - \$0.0 million; January 1, 2010 - \$0.0 million).

Central is authorized to issue up to \$1.5 billion in short-term commercial paper and up to \$1.5 billion in other borrowings which includes Central's medium-term note facility. At March 31, 2011, **\$376.1** million was borrowed under the short-term commercial paper facility (March 31, 2010 - \$359.0 million; December 31, 2010 - \$395.0 million; January 1, 2010 - \$190.0) and **\$225.0** million was borrowed under the medium-term note facility (March 31, 2010 - \$100.0 million; December 31, 2010 - \$225.0 million; January 1, 2010 - \$275.0).

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**18. Deposits**

Deposits classified as other liabilities are as follows:

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	January 1, <u>2010</u>
Amount				
- Due on demand	\$ 1,017,752	\$ 873,750	\$ 946,830	\$ 938,523
- Due within three months	1,862,664	1,548,637	1,903,649	2,781,429
- Due after three months and within one year	2,005,677	1,496,162	1,783,578	1,358,969
- Due after one year and less than five years	1,891,402	1,898,859	1,862,172	1,943,343
- Due after five years and less than six years	<u>-</u>	<u>2,707</u>	<u>1,500</u>	<u>250</u>
	<b>6,777,495</b>	5,820,115	6,497,729	7,022,514
Accrued interest	<u>43,823</u>	<u>37,890</u>	<u>38,185</u>	<u>39,213</u>
	<u><b>\$ 6,821,318</b></u>	<u>\$ 5,858,005</u>	<u>\$ 6,535,914</u>	<u>\$ 7,061,727</u>

**19. Subordinated liabilities**

On December 21, 2006, Central issued a \$50 million note due December 21, 2016. The note bears interest at a fixed rate of 4.52% until December 21, 2011, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 1.00%. Central has the option to redeem the note on December 21, 2011, subject to regulatory approval.

On October 9, 2009, Central issued \$150 million principal amount of 4.00% Series 2 Subordinated Notes due October 9, 2019. The notes bear interest at a fixed rate of 4.00% until, but excluding, October 9, 2014, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 2.40%. Central has the option to redeem the note on October 9, 2014, subject to regulatory approval.

The notes are recognized in the interim consolidated statements of financial position at amortized cost.

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**20. Securities under repurchase agreements**

Securities under repurchase agreements are as follows:

	(Thousands of dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Amounts under the Bank of Canada's purchase and Resale Agreements program	\$ -	\$ 837,068	\$ -	\$ 717,822
Amounts under the CMB and IMPP programs	<b>152,989</b>	181,294	162,358	30,832
Other	<u>13,355</u>	-	-	-
	<u><b>\$ 166,344</b></u>	<u>\$ 1,018,362</u>	<u>\$ 162,358</u>	<u>\$ 748,654</u>

**21. Other liabilities**

	(Thousands of Dollars)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Settlements in-transit	\$ <b>116,027</b>	\$ 79,793	\$ 70,363	\$ 82,563
Post employment benefits	<b>17,288</b>	14,195	16,879	13,540
Short-term employee benefits	<b>5,917</b>	5,166	5,114	4,536
Dividends payable	<b>2,381</b>	2,361	2,418	18,669
Trade amounts and other	<b>16,568</b>	15,662	17,963	16,817
Unearned insurance premiums	<b>7,393</b>	7,848	878	852
Finance leases	<u><b>1,482</b></u>	<u>1,343</u>	<u>1,238</u>	<u>1,501</u>
	<u><b>\$ 167,056</b></u>	<u>\$ 126,368</u>	<u>\$ 114,853</u>	<u>\$ 138,478</u>

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**22. Share capital**

Central may issue an unlimited number of class “A”, “B”, “C” and “E” shares and may, at its option and on the approval of the directors, redeem its shares. There are no restrictions on the number of shares that may be held by a member shareholder. The holders of each class of share are entitled to receive dividends as declared from time to time. The class “A”, “B” and “C” shares have a par value of \$1 per share, and the class “E” shares have a par value of \$0.01 per share and a redemption value of \$100.

In the event of liquidation, dissolution or winding-up, any surplus, profits or assets of Central shall be distributed proportionately among all shareholders.

The allocation of Class A shares is based on the assets of each credit union in proportion to the combined assets of the B.C. credit union system and the assets of Central’s member credit unions in Ontario. This allocation is adjusted periodically to reflect changes in credit union assets. On matters concerning Central’s role as a trade association, Class A members are entitled to one vote for every 100 members of their members. Each Class B and C shareholder has one vote on certain issues.

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The numbers of shares issued are as follows:

	(Thousands of shares)		
	<u>For the three</u> <u>months ended</u> <u>March 31, 2011</u>	<u>For the three</u> <u>months ended</u> <u>March 31, 2010</u>	<u>For the year</u> <u>ended</u> <u>December 31,</u> <u>2010</u>
Class A – credit unions			
Balance at beginning of period	164,939	162,536	162,536
Issued for cash during the period	2,416	-	4,651
Redeemed during the period	<u>-</u>	<u>-</u>	<u>(2,248)</u>
Balance at end of period	<u>167,355</u>	<u>162,536</u>	<u>164,939</u>
Class B – co-operatives			
Balance at beginning and end of period	<u>5</u>	<u>5</u>	<u>5</u>
Class C – other			
Balance at beginning and end of period	<u>7</u>	<u>7</u>	<u>7</u>
Class E – credit unions			
Balance at beginning and end of period	<u>3,163</u>	<u>3,163</u>	<u>3,163</u>

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The amounts outstanding are as follows:

	(Thousands of dollars)		
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Outstanding \$1 par value shares			
Class A – credit unions	\$ 167,355	\$ 162,536	\$ 164,939
Class B - cooperatives	5	5	5
Class C - other	7	7	7
Outstanding \$.01 par value shares			
Class E – credit unions	<u>32</u>	<u>32</u>	<u>32</u>
	<u>\$ 167,399</u>	<u>\$ 162,580</u>	<u>\$ 164,983</u>

The dividend amounts are as follows:

	(Thousands of dollars)	
	<u>For the three</u> <u>months ended</u> <u>March 31, 2011</u>	<u>For the three</u> <u>months ended</u> <u>March 31, 2010</u>
Dividend payable, balance at beginning of period	\$ 2,418	\$ 18,669
Declared during the period	2,381	2,361
Paid during the period	<u>\$ (2,418)</u>	<u>\$ (18,669)</u>
Dividend payable, balance at end of period	<u>\$ 2,381</u>	<u>\$ 2,361</u>

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**23. Gains on disposal of financial instruments**

The components of gains on disposal of financial instruments are as follows:

(Thousands of dollars)

	<u>Period ended</u> <u>March 31,</u> <u>2011</u>	<u>Period ended</u> <u>March 31,</u> <u>2010</u>
Net gains on disposal of trading assets	\$ 10,065	\$ 162
Net gains on disposal of investment securities	3,271	6,905
Net losses on disposal of derivatives	<u>(1,211)</u>	<u>(35)</u>
	<u>\$ 12,125</u>	<u>\$ 7,032</u>

**24. Change in fair value of financial instruments**

(Thousands of dollars)

	<u>Period ended</u> <u>March 31,</u> <u>2011</u>	<u>Period ended</u> <u>March 31,</u> <u>2010</u>
Trading Assets	\$ (42,866)	\$ 1,210
Activities under the CMB and IMPP programs		
Reinvestment assets	(2,193)	(3,363)
Derivative assets and liabilities	(9,798)	(5,809)
Secured loans to members	(4,825)	(18,481)
Obligations to CHT and CMHC	18,121	19,527
Derivative assets and liabilities	41,352	(6,297)
Trading deposits	<u>2,465</u>	<u>6,677</u>
	<u>\$ 2,256</u>	<u>\$ (6,536)</u>

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**25. Other income**

	(Thousands of dollars)	
	<u>Period ended</u> <u>March 31,</u> <u>2011</u>	<u>Period ended</u> <u>March 31, 2010</u>
Membership dues	\$ 1,842	\$ 1,752
Provincial advertising assessment	418	636
Equity interest in affiliates	449	730
Insurance assessments	2,568	2,712
Technology and payment services		
- Processing	9,744	8,979
- Direct banking	3,822	4,037
- Other technology services	114	566
Wholesale financial services		
- Treasury services	868	422
- Funding services	922	920
- Employee benefits & retirement services	251	213
- Registered plans	549	621
Trade and other services		
- Marketing products & programs	339	438
- Operations manual	344	321
- Property rents	220	206
- Research	315	269
- Risk management	759	520
- Other	<u>347</u>	<u>344</u>
	<u>\$ 23,871</u>	<u>\$ 23,686</u>

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**26. Provision for income taxes**

Income taxes reported in the interim consolidated financial statements are as follows:

	(Thousands of dollars)	
	For the period ended	
	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Provision for income taxes in Statements of Profit or Loss	\$ 2,833	\$ 1,175
Income tax benefit related to dividends accrued	<u>(334)</u>	<u>(337)</u>
Total	<u>\$ 2,499</u>	<u>\$ 838</u>

Components of income taxes recognized in the interim consolidated statements of profit or loss are as follows:

Current income taxes	\$ 1,073	\$ 753
Future income taxes	<u>1,760</u>	<u>422</u>
Total	<u>\$ 2,833</u>	<u>\$ 1,175</u>

Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of **30.5%** (2010 – 30.5%) to income before taxes. The reasons for this are as follows:

	For the three months ended	
	<u>March 31, 2011</u>	<u>March 31, 2010</u>
	%	%
Combined federal and provincial statutory income tax rates	<b>30.5</b>	30.5
Reduction available to credit unions	<b>(17.0)</b>	(15.0)
Other	<u><b>(0.1)</b></u>	<u>(1.8)</u>
Total	<u><b>13.4</b></u>	<u>13.7</u>

**27. Guarantees and Contingencies**

Central is exposed to risk as a party to off-balance sheet financial instruments that, in the normal course of business, are used to meet its own and its credit union members' financial needs. These

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instruments include guarantees such as standby letters of credit as well as commitments to accept deposits at agreed rates and terms.

(Contractual amounts in thousand of dollars)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Standby letters of credit	\$ 130,095	\$ 116,468	\$ 124,747	\$ 148,508
Commitments to extend credit	<b>\$ 3,105,052</b>	\$ 2,847,420	\$ 3,304,025	\$1,939,657

Central is involved in a legal action in the ordinary course of business, in which the likelihood of a loss and amount of loss, if any is not readily determinable.

**28. Financial instruments - Interest rate risk**

The following table summarizes carrying amounts by the earlier of the contractual repricing or maturity dates for the following financial instruments. Also shown are average effective yields, by the earlier of the contractual repricing or maturity dates.

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(Millions of dollars)	<u>Floating</u> <sup>(1)</sup>	<u>Within 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 Year to 5 Years</u>	<u>Over 5 Years</u>	<u>Not Rate Sensitive</u>	<u>Total</u>
<b>Assets</b>							
Cash and cash equivalents	\$ 170.7	\$ -	\$ -	\$ -	\$ -	\$ -	170.7
Deposits with regulated financial institutions	-	128.7	5.9	3.6	-	0.2	138.4
Derivative assets	-	-	-	-	-	156.1	156.1
Investment securities	-	1,427.6	181.1	5,158.6	1,662.0	125.8	8,555.1
Reinvestment assets under the CMB and IMPP programs	-	308.5	339.0	1,127.3	-	12.0	1,786.8
Loans	255.9	771.3	182.3	160.1	6.9	(1.7)	1,374.8
Secured loans to members	-	135.4	409.8	1,180.9	-	25.7	1,751.8
Other assets	-	6.6	18.9	4.8	-	185.9	216.2
<b>Total</b>	<b>426.6</b>	<b>2,778.1</b>	<b>1,137.0</b>	<b>7,635.3</b>	<b>1,668.9</b>	<b>504.0</b>	<b>14,149.9</b>
<b>Liabilities</b>							
Deposits from members	1,017.8	2,164.6	2,713.2	3,080.3	-	66.6	9,042.5
Derivative liabilities	-	-	-	-	-	80.8	80.8
Debt securities issued	-	330.2	45.5	224.4	-	3.4	603.5
Obligations under the CMB and IMPP programs	-	-	22.9	3,120.6	-	133.4	3,276.9
Subordinated liabilities	-	-	50.1	149.0	-	3.5	202.6
Securities under repurchase agreements	-	166.3	-	-	-	-	166.3
Other liabilities	-	-	-	-	-	176.3	176.3
Equity	-	-	-	-	-	601.0	601.0
<b>Total</b>	<b>1,017.8</b>	<b>2,661.1</b>	<b>2,831.7</b>	<b>6,574.3</b>	<b>-</b>	<b>1,065.0</b>	<b>14,149.9</b>
On Balance Sheet Gap	(591.2)	117.0	(1,694.7)	1,061.0	1,668.9	(561.0)	-
Off Balance Sheet Gap	\$ -	\$ 87.9	\$ 1,366.7	\$ 148.8	\$ (1,603.4)	\$ -	-
Total Gap – March 31, 2011	<u>\$ (591.2)</u>	<u>\$ 204.9</u>	<u>\$ (328.0)</u>	<u>\$ 1,209.8</u>	<u>\$ 65.5</u>	<u>\$ (561.0)</u>	<u>-</u>
Total Gap – December 31, 2010	<u>\$ (703.7)</u>	<u>\$ 371.4</u>	<u>\$ 48.4</u>	<u>\$ 530.7</u>	<u>\$ 144.7</u>	<u>\$ (391.5)</u>	<u>-</u>

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(1) Represents those instruments whose interest rates change immediately with a change in an underlying interest rate basis. An example would be prime rate loans.

**29. Financial instruments - Fair value**

The following table sets out the fair values of on-balance sheet and derivative instruments of Central using the valuation methods and assumptions described in note 6. Fair values have not been attributed to assets and liabilities that are not considered financial instruments, such as capital assets.

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(Millions of dollars)	Fair Value		Carrying Value		Unrealized Gain (Loss)	
	<u>Mar 31</u> <u>2011</u>	<u>Mar 31</u> <u>2010</u>	<u>Mar 31</u> <u>2011</u>	<u>Mar 31</u> <u>2010</u>	<u>Mar 31</u> <u>2011</u>	<u>Mar 31</u> <u>2010</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 170.73	\$ 106.39	\$ 170.73	\$ 106.39	\$ -	\$ -
Deposits with regulated financial institutions	138.54	148.42	138.39	147.93	0.15	0.49
Investment securities	8,555.09	8,026.15	8,555.12	8,026.31	(0.03)	(0.16)
Reinvestment assets under the CMB and IMPP programs	1,786.78	1,108.11	1,786.78	1,108.11	-	-
Derivative assets	156.10	157.91	156.10	157.91	-	-
Loans	1,378.26	1,217.72	1,374.83	1,211.99	3.43	5.73
Secured loans to members	1,751.82	2,692.41	1,751.82	2,692.41	-	-
Other assets	30.68	75.57	30.33	74.36	0.35	1.21
<b>Liabilities</b>						
Deposits designated as trading	2,221.15	2,123.10	2,221.15	2,123.10	-	-
Derivative liabilities	80.76	69.38	80.76	69.38	-	-
Debt securities issued	603.47	459.08	603.47	459.08	-	-
Deposits from members	6,838.61	5,882.96	6,821.32	5,858.01	(17.29)	(24.95)
Obligations under the CMB and the IMPP programs	3,276.85	3,279.74	3,276.85	3,279.74	-	-
Subordinated liabilities	206.40	204.55	202.64	202.63	(3.76)	(1.92)
Securities under repurchase agreements	166.34	1,018.32	166.34	1,018.36	-	0.04
Other liabilities	116.03	79.79	116.03	79.79	-	-
<b>Total</b>					<b><u>\$(17.15)</u></b>	<b><u>\$ (19.56)</u></b>

Central's net unrealized loss on its financial instruments at December 31, 2010 and January 1, 2010 was \$22.34 million and \$40.86 million, respectively.

**30. Capital management**

Central's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions and provincial regulations administered by the Financial Institutions Commission of British Columbia. Pursuant to federal regulations, Central is

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required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Central targets an operating borrowing multiple of 16:1 to 18:1 to ensure that it has capacity to absorb sudden increases in system deposits or to increase external borrowings to meet member demand for funds.

Provincial regulations, which apply to Central, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings, which generally parallel the methodology used by OSFI to regulate Canadian chartered banks, require Central's risk-weighted capital, calculated by dividing capital by risk-weighted assets, to be no less than 8 percent. Furthermore, Central must maintain a risk-weighted capital ratio of at least 10 percent to enable member credit unions in British Columbia to risk-weight their deposits with Central at zero percent.

Central's capital base includes Tier 1 capital in the form of share capital, contributed surplus and retained earnings. Subject to certain conditions, Central may include its subordinated debt in Tier 2B capital. In calculating Central's capital base for both federal and provincial purposes, certain deductions are required for certain asset classes and investments.

At year-end, Central was in compliance with these regulatory requirements.

**31. Related parties**

*Transactions with key management personnel*

Key management personnel include Central's Executive management and Vice-Presidents. Key management personnel and their immediate relatives have transacted with Central during the period as follows:

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Mortgage loans outstanding at end of period	\$ 1,286,557	\$ 1,347,975
Maximum mortgage loans outstanding during the period	\$ 1,298,533	\$ 1,354,767

Mortgage loans to key management personnel bear interest at rates ranging from 2.58% to 4.80% and are secured over property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at period end.

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Key management personnel compensation for the period comprised:

(Thousands of dollars)

	<u>Period ended</u> <u>March 31,</u> <u>2011</u>	<u>Period</u> <u>ended</u> <u>March 31,</u> <u>2010</u>
Salaries and short-term employee benefits	\$ 730	\$ 686
Post-employment benefits	<u>72</u>	<u>97</u>
	<u>\$ 802</u>	<u>\$ 783</u>

In addition to their salaries, Central also provides non-cash benefits to key management personnel and contributes to post-employment defined plans on their behalf.

*Board of directors*

During the period, the members of Central's Board of directors received aggregate remuneration of \$109 thousand (period ended March 31, 2010 - \$120 thousand)

*Significant Subsidiaries*

(% ownership of common shares outstanding)

	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Central Risk and Insurance Management Services Inc.	100%	100%	100%	100%
CUPP Services Ltd.	100%	100%	100%	100%
Stabilization Fund Corporation	100%	100%	100%	100%

CUPP, subject to the approval of its Board of Directors, may declare patronage dividends to distribute some, or all, of its excess or revenue over expenditures during the period. Central participates in this patronage dividend in proportion to its use of services provided by CUPP, with the remainder issued to holders of the Non-Controlling Interest of CUPP.

The net assets of Stabilization Fund Corporation are retained for use by Central's member credit unions in Ontario, and as such, Stabilization Fund Corporation does not declare or pay dividends.

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Central's other subsidiaries represent less than 1% of Central's consolidated assets, revenue and profit or loss before tax.

*Investments in affiliates*

Central accounts for its interests in the following entities using the equity method of accounting:

	(% ownership of common shares outstanding)			
	<u>March 31,</u> <u>2011</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Credential Financial Inc.	<b>40%</b>	40%	40%	40%
Credit Union Central of Canada (CUCC)	<b>50%</b>	50%	50%	50%
CUMIS Group Limited	<b>27%</b>	27%	27%	27%