



## Second Quarter Report 2008

### REPORT TO MEMBERS

#### **CENTRAL 1 REPORTS RECORD RESULTS FOR THE SECOND QUARTER OF 2008**

Effective June 30, 2008, Credit Union Central of British Columbia changed its name to Central 1 Credit Union (Central).

Second quarter highlights compared to the same period last year:

- Central's assets of \$5.5 billion, up 12.2% from \$4.9 billion
- Central's net income of \$7.78 million, compared to \$5.66 million
- Central's return on equity of 10.91%, compared to 8.47%
- System<sup>(1)</sup> net operating income<sup>(2)</sup> of \$70.24 million, versus \$74.53 million
- System assets of \$43.3 billion, up 7.3% from \$40.4 billion

Central, the central financial facility and trade association for B.C. credit unions, continues to perform well in challenging financial markets. Net income was \$7.78 million compared to \$5.66 million for the same period last year. Net income for the six months ended June 30, 2008 was \$12.76 million, up sharply from \$10.77 million for the same period last year. Assets increased by 12.2%, reaching \$5.5 billion compared to \$4.9 billion as at June 30, 2007.

On July 1, 2008, Central purchased substantially all of the assets and assumed substantially all of the liabilities of Credit Union Central of Ontario Limited (CUCO). Going forward, Central will manage the liquidity reserves of member credit unions in both British Columbia and Ontario.

British Columbia credit unions, collectively referred to as the system, also continue to perform well in an environment defined by a moderately expanding provincial economy, low unemployment and balanced residential housing markets. The system earned \$70.24 million before taxes, dividends and patronage refunds in the second quarter of 2008, down 5.8% from the \$74.53 million earned during same period in 2007. Combined assets for the system in the same period rose 7.2%, year-over-year, to reach \$43.3 billion at quarter-end.

Demand for loans is slowing but remains firm as total system net loans increased by 6.8% year-over-year to reach \$37.4 billion. Commercial and personal loans secured by real estate grew by 13.9% and 5.1%, year-over-year, respectively. System loan delinquencies over 90 days rose to 0.32% of total loans compared to 0.21% a year ago but still remain low in comparison to historical levels.

- (1) These documents include statements about the credit union system in British Columbia. 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.

## **Management's Discussion and Analysis as at June 30, 2008**

This portion of the Report to Members updates Central's Management's Discussion and Analysis for the year ended December 31, 2007, and provides a discussion and analysis of Central's financial condition and results of operations for the six-month period ended June 30, 2008 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).

The results reported in this Management's Discussion and Analysis and in the financial statements that follow are reported in Canadian dollars and are based on the significant accounting policies reported in *Note 2* of the 2007 consolidated financial statements which may be found at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

There are numerous factors, many beyond Central's control, which could cause results to differ from expectations. These factors, which include industry factors, Central and system specific factors, economic factors and financial market conditions, are substantially unchanged from those described in Central's Management's Discussion and Analysis for the year ended December 31, 2007. Central's performance is also subject to a number of risks, including credit, liquidity, market and operational risk. There has been no substantial change in Central's risk profile or in its management of risk as described in Central's Management's Discussion and Analysis for the year ended December 31, 2007.

In addition, this discussion may include forward-looking statements with regard to 2008 and beyond, which, by their nature, involve some risk with regard to accuracy. Where forward-looking comments appear, they should be interpreted in the context of this uncertainty.

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

Central had a record second quarter in 2008, achieving net income of \$7.78 million, or 6.86 cents per share compared to \$5.66 million or 4.99 cents per share last year. Net financial income of \$12.17 million was up sharply from the \$8.90 million recorded in the second quarter of 2007 and year-to-date net financial income was a record \$19.90 million. Substantially higher interest margin due to higher volumes and wider credit spreads on investments was the major factor in the improvement in financial income.

Other income of \$15.37 million for the quarter was 15.4% higher than last year's \$13.32 million, primarily due to increased payment processing and Internet banking revenue. Operating expenses of \$16.17 million were higher compared to the \$14.79 million incurred last year. The gap between other income and operating expenses improved to a deficit of \$0.81 million compared to a deficit of \$1.47 million last year.

System net operating income for the quarter was \$70.24 million, compared to \$74.53 million for the second quarter of 2007. Non-financial income rose by 3.2% from the same period last year, and non-financial expense increased 6.3%. System financial margin improved by 3.4% year-over-year, despite increased funding costs in the capital markets. For the six months ended June 30, 2008 system net operating income increased by 2.4% to \$142.19 million compared to \$138.85 million last year.

The financial condition of Central and the system remains sound and is comparable to that of June 30, 2007. Capital ratios remain strong. Central's risk-weighted capital ratio was 23.3% and its borrowing multiple was 15.7:1. System risk-weighted capital was 12.6%. Credit quality remains high in the system's loan portfolios and system provisions for credit losses as a percentage of average loans are consistent with prior periods.

Overall liquidity within the system, including that held by Central, continues to improve reaching 10.5% of assets as of June 30, 2008, compared to 9.5% a year ago. Over the last 12 months, Central and its member credit unions have taken steps to improve system liquidity in the face of the current state of financial markets including expanding their access to the Canada Housing Trust program and adjusting lending activities to more closely match funding capacity. Deposits with credit unions grew year-over-year by a healthy 8.3%, more than matching loan growth of 6.8%. Holdings of liquid assets increased by 12.5% year-over-year and borrowings from Central and other lenders decreased by 6.2%.

	For the Three Months ended June 30, 2008	For the Three Months ended June 30, 2007	Increase (Decrease)
<b>Earnings</b>			
Net Financial Income ( <i>\$ millions</i> )	12.17	8.90	3.27
Net Financial and Other Income ( <i>\$ millions</i> )	27.57	22.25	5.32
Net Income ( <i>\$ millions</i> )	7.78	5.66	2.12
Earnings per share ( <i>cents</i> )			
Basic	6.86	4.99	1.87
Fully Diluted	6.86	4.99	1.87
Return on			
Average Assets	0.58%	0.46%	0.12
Average Equity	10.91%	8.47%	2.44
<b>Balance Sheet Data</b> ( <i>\$ billions</i> )			
Total Assets	5.45	4.93	0.52
Average Assets	5.29	4.98	0.31
Long Term Financial Liabilities	1.23	1.59	(0.36)
<b>Capital Ratios</b>			
Tier 1 Capital Ratio	19.4%	20.1%	(0.7)
Total Capital Ratio	23.3%	23.8%	(0.5)
Borrowing multiple	15.7x	14.2x	1.5x
<b>Share Information</b>			
Outstanding \$1 Par Value Shares ( <i>thousands</i> )			
Class A – Credit Unions	113,345	113,345	0
Class B – Cooperatives	3	3	0
Class C – Other	6	5	1
Dividends per share (all classes) ( <i>cents</i> )	1.28	2.11	(0.83)
<b>System</b>			
Net Operating Income ( <i>\$ millions</i> )	70.24	74.53	(4.29)
Total Assets ( <i>\$ billions</i> )	43.29	40.36	2.93
Total Capital Ratio	12.55%	12.46%	0.09
Number of Credit Unions	48	50	(2)
Number of Branches	374	364	10
Number of Member ( <i>thousands</i> )	1,663	1,604	59

## **Total Revenues**

### Net Financial Income

Central's net financial income increased to \$12.17 million for the quarter from \$8.90 million for the same period last year. Interest margin, at \$9.36 million, improved from last year's \$7.37 million. Higher average assets and higher credit spreads on investments were the major contributors to improved interest margin relative to last year. Gains on disposal of financial instruments were \$4.19 million, up sharply from gains of \$1.27 million for the second quarter of 2007. The majority of these gains resulted from Central's role in the securitization of system assets, although a significant portion of the gains resulted from the sales of investments from Central's securities portfolio.

Partially offsetting these gains were mark-to-market losses on financial instruments. These losses, which totaled \$1.38 million compared to a gain of \$0.26 million last year, principally resulted from the impact of markedly higher credit and interest rate swap spreads and do not represent any intrinsic impairment of the underlying financial instruments.

### Other Income

Central's other income for the quarter increased by 12.0% to \$15.37 million from last year's \$13.32 million. Income from payments processing and Internet banking has increased on the back of higher volumes. Management anticipates that this trend will continue as Central continues to extend these lines of business to entities outside the system. Income from Funding Services also increased as Central increases its role in administering and facilitating system securitization activities. Year-to-date figures also include an income distribution from Credit Union Central of Canada (CUCC) of \$0.74 million during the first quarter, versus \$0.50 million last year.

### Operating Expenses

Operating expenses, before combination transaction costs of \$0.87 million, increased to \$16.17 million for the quarter from \$14.79 million last year. Included in these expenses are salary costs, which increased to \$8.05 million from \$7.67 million, reflecting higher levels of staffing as Central continues to expand its services to entities outside of the province of B.C.

One time costs associated with the successful combination with CUCO totaled \$2.15 million for the quarter compared to \$0.59 million for the same period last year. The higher amount mostly reflects severance costs incurred as a result of the transaction.

## Income Taxes

Central's income tax expense for the quarter was \$1.47 million, which compares to \$1.21 million last year. Central's effective tax rate for the quarter was 15.9% compared to 17.6% for the same quarter in 2007.

## Balance Sheet

### Cash and Securities and Liquidity Management

Central's assets increased to \$5.5 billion from \$4.9 billion as at June 30, 2007. Over the last 12 months, loans to credit unions have decreased significantly as Central and the system have collectively sought to increase system liquidity in the face of uncertain capital market conditions. As a result, at \$3.9 billion, cash and securities represent over 71% of Central's assets compared to 66% last year. Central has not drawn down any of its operating lines with other financial institutions and has sufficient excess liquid securities, and unused capacity remaining in its commercial paper and medium-term note programs, to meet further loan advances to credit unions.

### Loans and Off-Balance Sheet Arrangements

Loans, which are almost entirely secured loans to member credit unions, decreased to \$1.4 billion from \$1.5 billion last year. While moderate real estate markets continue to drive consumer loan demand, credit unions have prudently met these demands from deposits rather than from borrowings. Credit unions also continue to successfully use securitization to fund member loan demand. Although current conditions in global financial markets have effectively closed system access to commercial paper securitization conduits, the system through Central securitized over \$650 million of residential mortgages in the first half of 2008 through the Canada Mortgage Bonds Program. As at June 30, assets securitized by the system directly or indirectly through Central were as follows:

\$ millions	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Total Securitized	\$3,261	\$3,074

## Summary of Quarterly Results

Central's financial results for each of the last eight most recently completed quarters are summarized in the accompanying table. In general, Central's net interest income is quite stable from quarter to quarter, with no discernable seasonal trend, and reflects the condition of prevailing financial markets. However, interest income and dividends from CUCC and its subsidiaries, if any, are generally received in the first quarter of each year. In 2008 and 2007, these amounted to \$0.74 million and \$0.50 million, respectively. Non-

interest income and non-interest expenses are also 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 10 – 15% 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 net income but their timing and magnitude are not predictable.

**CENTRAL - QUARTERLY EARNINGS**

(Millions of \$)	Period Ended				Period Ended			
	30-Sep-07	31-Dec-07	31-Mar-08	30-Jun-08	30-Sep-06	31-Dec-06	31-Mar-07	30-Jun-07
Total Interest Income	60,306	64,278	58,278	51,374	50,284	52,453	53,458	55,084
Total Interest Expense	52,655	55,401	49,526	42,017	43,720	45,293	46,233	47,716
Interest margin	7,651	8,877	8,752	9,357	6,564	7,160	7,225	7,368
Gain on disposal of financial instruments	2,243	4,367	6,297	4,188	(131)	(71)	(113)	1,270
Changes in fair value of financial instruments	(1,481)	(4,861)	(7,321)	(1,376)	236	105	591	259
Recovery (provision) for credit losses	0	28	0	34		(795)		29
Non-Interest Income	12,900	13,941	14,008	15,367	12,621	13,549	12,514	13,319
Non-Interest Expenses	(14,382)	(15,731)	(15,448)	(16,174)	(12,945)	(16,630)	(13,671)	(14,789)
Unusual Items	3,711	(772)	(290)	(2,150)	0	(168)	(332)	(592)
Income Taxes	(1,689)	(1,168)	(1,023)	(1,465)	(991)	(499)	(1,107)	(1,205)
Net Income	8,953	4,681	4,975	7,781	5,354	2,651	5,107	5,659
Shares	113.40	113.40	113.40	113.40	113.35	113.40	113.40	113.40
Earnings per share from continuing operations								
Basic (cents)	4.62	4.81	4.64	8.76	4.72	2.49	4.80	5.51
Diluted (cents)	4.62	4.81	4.64	8.76	4.72	2.49	4.80	5.51
Earnings per Share								
Basic	7.90	4.13	4.39	6.86	4.72	2.34	4.50	4.99
Diluted	7.90	4.13	4.39	6.86	4.72	2.34	4.50	4.99

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

**Capital Resources**

Central's capital position remains strong. For the quarter, Central's available capital resources reached \$340.5 million, compared to \$320.7 million as at June 30, 2007.

Central's regulatory capital levels are determined according to both federal guidelines and provincial regulations. Central's federal capital adequacy borrowing multiple was below its targeted operating range but above that at June 30, 2007. Additionally, the borrowing multiple was also well below the federal regulatory maximum. The multiple is projected to move toward Central's targeted range later in the fiscal year. Central's provincial risk-weighted total capital ratio at 23.3% remains considerably higher than both Central's target and provincial requirements. This reflects the high quality and, hence, low risk weighting of securities in Central's liquidity portfolio.

	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>Target</b>	<b>Regulatory Requirement</b>
Borrowing Multiple	15.7:1	14.2:1	16:1 – 18:1	20:1
Risk-weighted Ratios	23.3%	23.8%	11 – 14%	10%

## **Mergers and Acquisitions**

On June 30, 2008, Credit Union Central of British Columbia changed its name to Central 1 Credit Union. On July 1, 2008, Central purchased substantially all of the assets and assumed substantially all of the liabilities of CUCO.. CUCO provided similar wholesale financial and trade services to member credit unions in Ontario to those provided by Central to British Columbia credit unions. As part of the transaction 148 credit unions in Ontario became members of Central. These credit unions contributed capital to Central by subscribing for Class A shares and contributing surplus to ensure that Central continues to be well capitalized. The assets purchased from CUCO were approximately \$2.4 billion and consisted primarily of highly liquid securities and loans to Ontario member credit unions. The liabilities assumed from CUCO were almost entirely deposits from its member credit unions. Going forward, the assets of Central are anticipated to total over \$7.5 billion, the majority of which will consist of highly rated liquid securities or loans to member credit unions, in keeping with Central's role as the liquidity manager for both BC and member Ontario credit unions.

## **Central's Accounting Policies and Estimates**

Central's Consolidated Interim Financial Statements, included in this Report to Members, have been prepared in accordance with GAAP as described in *Note 1* of the Interim Consolidated Financial Statements.

### **Changes in Accounting Policies**

Effective January 1, 2008, Central adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1535 – Capital Disclosures, 3862 – Financial Instruments, Disclosures and 3863 – Financial Instruments, Presentation. These standards require organizations to provide disclosures related to their processes for managing capital as well as increased disclosures related to the risks associated with their financial instrument holdings. On adoption of these standards no changes were made to previously reported amounts.

### **Critical Accounting Estimates**

The critical accounting estimates remain unchanged from those disclosed in Central's 2007 Annual Report.

**Central 1 Credit Union**  
**Interim Consolidated Balance Sheets**  
**Unaudited**

	Notes	(Thousands of dollars)		December 31 2007
		2008	June 30 2007	
Assets				
Cash		\$ 48,408	\$ 140,299	\$ 28,529
Securities	4	3,672,784	2,769,601	3,753,662
Amounts on deposit with regulated financial institutions	5	169,362	322,676	211,058
Loans	6	1,401,886	1,515,734	1,482,978
Capital assets		13,028	14,087	13,834
Other	7	144,910	164,873	172,121
		<u>\$ 5,450,378</u>	<u>\$ 4,927,270</u>	<u>\$ 5,662,182</u>
Liabilities				
Notes	9	\$ 819,917	\$ 885,004	\$ 968,774
Deposits	10	4,171,047	3,542,530	4,223,377
Other	11	126,865	196,118	150,447
		<u>5,117,829</u>	<u>4,623,652</u>	<u>5,342,598</u>
Subordinated Debt	12	<u>50,458</u>	<u>48,563</u>	<u>49,671</u>
Members' Equity				
Share Capital		113,354	113,353	113,354
Retained Earnings		177,144	157,409	167,148
Accumulated Other Comprehensive Income		(8,407)	(15,707)	(10,589)
		<u>282,091</u>	<u>255,055</u>	<u>269,913</u>
		<u>\$ 5,450,378</u>	<u>\$ 4,927,270</u>	<u>\$ 5,662,182</u>
Guarantees and contingencies	16			
Subsequent event	22			

Approved by the Directors:

"Daniel A. Burns"  
Daniel A. Burns, Chairperson

"J. Ross Montgomery"  
J. Ross Montgomery, Chairperson - Audit Committee

**Central 1 Credit Union**  
**Interim Consolidated Statements of Income**  
**Unaudited**

	Notes	For the three months ended		for the six months ended	
		June 30 2008	June 30 2007	June 30 2008	June 30 2007
Interest Income					
Securities		\$ 34,882	\$ 31,026	\$ 69,769	\$ 58,674
Amounts on deposit with regulated financial institutions		1,851	3,770	4,255	7,470
Loans		14,641	20,288	35,628	42,398
		<u>51,374</u>	<u>55,084</u>	<u>109,652</u>	<u>108,542</u>
Interest Expense					
Notes		8,095	9,612	18,097	19,041
Deposits		33,345	37,516	72,294	73,742
Subordinated debt		577	588	1,152	1,166
		<u>42,017</u>	<u>47,716</u>	<u>91,543</u>	<u>93,949</u>
Interest Margin		9,357	7,368	18,109	14,593
Gain on disposal of financial instruments		4,188	1,270	10,485	1,157
Changes in fair value of financial instruments	13	(1,376)	259	(8,697)	850
Net financial income		12,169	8,897	19,897	16,600
Reversal of loan loss provision		(34)	(29)	(34)	(29)
		<u>12,203</u>	<u>8,926</u>	<u>19,931</u>	<u>16,629</u>
Other income	14	15,367	13,319	29,375	25,833
Net financial and other income		<u>27,570</u>	<u>22,245</u>	<u>49,306</u>	<u>42,462</u>
Operating Expenses					
Salaries and employee benefits		8,054	7,672	16,333	15,047
Premises and equipment		1,097	884	2,127	1,793
Other administrative expenses		7,023	6,233	13,162	11,620
		<u>16,174</u>	<u>14,789</u>	<u>31,622</u>	<u>28,460</u>
Income from operations before the following		11,396	7,456	17,684	14,002
Combination transaction costs		(2,150)	(592)	(2,440)	(924)
		<u>9,246</u>	<u>6,864</u>	<u>15,244</u>	<u>13,078</u>
Income before income taxes		9,246	6,864	15,244	13,078
Income taxes	15	1,465	1,205	2,488	2,312
		<u>7,781</u>	<u>5,659</u>	<u>12,756</u>	<u>10,766</u>
Net Income		<u>\$ 7,781</u>	<u>\$ 5,659</u>	<u>\$ 12,756</u>	<u>\$ 10,766</u>

See accompanying notes to the interim consolidated financial statements

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

	For the three months ended		For the six months ended	
	June 30 2008	June 30 2007	June 30 2008	June 30 2007
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Income	\$ 7,781	\$ 5,659	\$ 12,756	\$ 10,766
Other comprehensive income (loss) (net of tax)				
Net unrealized gains (losses) on available-for-sale assets <sup>1</sup>	(10,953)	(12,439)	2,815	(12,161)
Reclassification of (gains) losses on available-for-sale assets to net income <sup>2</sup>	(1,678)	(7)	(927)	90
	<u>(12,631)</u>	<u>(12,446)</u>	<u>1,888</u>	<u>(12,071)</u>
Net gains (losses) on derivative instruments designated as cash flow hedges <sup>3</sup>	(231)	(1,125)	336	(1,151)
Reclassification of (gains) losses on derivative instruments designated as cash flow hedges recorded in prior periods <sup>4</sup>	(15)	79	(42)	79
	<u>(246)</u>	<u>(1,046)</u>	<u>294</u>	<u>(1,072)</u>
Other comprehensive income	<u>(12,877)</u>	<u>(13,492)</u>	<u>2,182</u>	<u>(13,143)</u>
Comprehensive income	<u>\$ (5,096)</u>	<u>\$ (7,833)</u>	<u>\$ 14,938</u>	<u>\$ (2,377)</u>
Income taxes (recoveries) deducted from the above items				
<sup>1</sup> Net unrealized gains (losses) on available-for-sale assets	<u>\$ (1,974)</u>	<u>\$ (2,660)</u>	<u>\$ 583</u>	<u>\$ (2,598)</u>
<sup>2</sup> Reclassification of (gains) losses on available-for-sale assets to net income	<u>\$ (307)</u>	<u>\$ (2)</u>	<u>\$ (164)</u>	<u>\$ 19</u>
<sup>3</sup> Net gains (losses) on derivative instruments designated as cash flow hedges	<u>\$ (49)</u>	<u>\$ (239)</u>	<u>\$ 59</u>	<u>\$ (245)</u>
<sup>4</sup> Reclassification of (gains) losses on derivative instruments designated as cash flow hedges recorded in prior periods	<u>\$ (2)</u>	<u>\$ 17</u>	<u>\$ (7)</u>	<u>\$ 17</u>

See accompanying notes to the interim consolidated financial statements

**Central 1 Credit Union**  
**Interim Consolidated Statements of Changes in Members' Equity**  
**Unaudited**

(Thousands of dollars)

Notes	For the three months ended June 30 2008	June 30 2007	For the six months ended June 30 2008	June 30 2007
<b>Share Capital</b>				
Balance at beginning and end of period	<u>\$ 113,354</u>	<u>\$ 113,353</u>	<u>\$ 113,354</u>	<u>\$ 113,353</u>
<b>Retained Earnings</b>				
Balance at beginning of period	\$ 170,619	\$ 153,715	\$ 167,148	\$ 149,444
Transition adjustments on adoption of new accounting policies <sup>1</sup>	-	-	-	1,093
Net Income	7,781	5,659	12,756	10,766
Dividends	(1,456)	(2,389)	(3,246)	(4,730)
Related tax savings	15 200	424	486	836
Balance at end of period	<u>\$ 177,144</u>	<u>\$ 157,409</u>	<u>\$ 177,144</u>	<u>\$ 157,409</u>
<b>Accumulated Other Comprehensive Income (AOCI) (net of tax)</b>				
Balance at beginning of period	\$ 4,470	\$ (2,215)	\$ (10,589)	\$ -
Transition adjustments on adoption of new accounting policies <sup>1</sup>	-	-	-	(2,564)
Other comprehensive income	(12,877)	(13,492)	2,182	(13,143)
Balance at end of period	<u>\$ (8,407)</u>	<u>\$ (15,707)</u>	<u>\$ (8,407)</u>	<u>\$ (15,707)</u>
Members' Equity at end of period	<u>\$ 282,091</u>	<u>\$ 255,055</u>	<u>\$ 282,091</u>	<u>\$ 255,055</u>

<sup>1</sup>The transition adjustment relates to the adoption of new accounting standards for financial instruments. Refer to Note 3 in the Consolidated Financial Statements in our 2007 Annual Report.

See accompanying notes to the interim consolidated financial statements

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

(Thousands of dollars)

Notes	For the three months ended		For the six months ended	
	June 30 2008	June 30 2007	June 30 2008	June 30 2007
<b>Cash flows from operating activities</b>				
Net income	\$ 7,781	\$ 5,659	\$ 12,756	\$ 10,766
Adjustments for:				
Depreciation	499	454	1,027	902
Realized gains and holding gains	(2,812)	(2,485)	(1,788)	(2,007)
Net change in accrued interest	(10,755)	(490)	(12,622)	(7,206)
Recovery of credit losses	6 (34)	(29)	(34)	(29)
Other items, net	(302)	16,903	(7,347)	(12,473)
	<u>(5,623)</u>	<u>20,012</u>	<u>(8,008)</u>	<u>(10,047)</u>
<b>Cash flows from financing activities</b>				
Dividends - net of income taxes	200	424	(8,969)	(8,253)
Net change - settlements-in-transit	5,991	32,598	19,432	(52,703)
Net change - notes	(10,719)	(169,720)	(146,908)	129,780
Net change - deposits	207,191	(107,957)	(46,503)	(324,112)
	<u>202,663</u>	<u>(244,655)</u>	<u>(182,948)</u>	<u>(255,288)</u>
<b>Cash flows from investing activities</b>				
Net change - securities	(290,285)	(210,152)	80,701	449,650
Net change - amounts on deposit with regulated financial institutions	2,738	18,974	40,660	65,035
Net change - loans	(17,171)	512,316	81,989	(97,441)
Net changes - loans available for sale	4,651	(17,729)	7,706	(40,203)
Capital asset acquisitions	(171)	(825)	(221)	(1,018)
	<u>(300,238)</u>	<u>302,584</u>	<u>210,835</u>	<u>376,023</u>
Increase (decrease) in cash resources	(103,198)	77,941	19,879	110,688
Cash resources - beginning of period	151,606	62,358	28,529	29,611
Cash resources - end of period	<u>\$ 48,408</u>	<u>\$ 140,299</u>	<u>\$ 48,408</u>	<u>\$ 140,299</u>
<b>Supplemental Information</b>				
Interest received	<u>\$ 46,769</u>	<u>\$ 52,001</u>	<u>\$ 109,806</u>	<u>\$ 105,185</u>
Interest paid	<u>\$ 47,268</u>	<u>\$ 36,244</u>	<u>\$ 102,593</u>	<u>\$ 88,919</u>

See accompanying notes to the interim consolidated financial statements

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Central 1 Credit Union (Central), (formerly Credit Union Central of British Columbia), is governed by the Credit Union Incorporation Act (British Columbia) and is subject to the provisions of the Financial Institutions Act (British Columbia) and the Cooperative Credit Associations Act (Canada).

Central is the primary financial facility and trade association for the province's independent credit unions. The performance of the British Columbia credit union system plays an integral part in determining the results of Central's operations and its financial position.

These interim consolidated financial statements do not contain the complete disclosure of the annual financial statements. Accordingly these financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2007.

**1. Basis of presentation**

The interim consolidated financial statements include the accounts of Central and its subsidiaries, 0789376 B.C. Ltd., Central Financial Corporation (1989) Ltd., C.U. Financial Services Ltd., Central Data Systems Ltd., and Inovera Solutions Inc., all of which are wholly owned.

Except as described in note 2, these interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles(GAAP), using the same accounting policies as set out in Central's Consolidated Financial Statements for the year ended December 31, 2007. Under GAAP, additional disclosures are required in the annual financial statements and accordingly, these interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2007 and the accompanying notes.

**2. Changes in Accounting Policies**

*Capital Disclosures and Financial Instruments – Disclosures and Presentation*

Effective January 1, 2008 Central adopted three new presentation and disclosure standards which are contained in Canadian Institute of Chartered Accounts Handbook Section 1535 – *Capital Disclosures*, Section 3862 – *Financial Instruments – Disclosures*, and Section 3863 – *Financial Instruments – Presentation*.

Section 1535 requires the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the entity's objectives as well as its policies and procedures for managing capital. Upon adoption of this standard, no changes were made to previously reported balances.

Sections 3862 and 3863, which replaced Section 3861 – *Financial Instruments, Disclosure and Presentation*, require organizations to provide new disclosures related to the risks associated with financial instruments and how the entity manages those risks. Upon adoption of these standards, no changes were made to previously reported balances.

**3. Fair value of financial instruments**

Certain financial instruments are recognized in the interim consolidated balance sheet at fair value. These include securities, other than equity shares with no quoted market value, amounts on deposit with regulated financial institutions, derivative instruments and deposits designated as 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

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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. Equity securities classified as available-for-sale, for which fair value is not determinable through observable market information, are held at cost.

*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.

**4. Securities**

Securities designated as trading are as follows.

	(Thousands of dollars)		
	<b>June 30 2008</b>	June 30 2007	December 31 2007
Amortized cost	<u>\$ 368,932</u>	\$ 48,350	\$ 267,641
Fair value	<u>\$ 366,890</u>	<u>\$ 47,886</u>	<u>\$ 267,321</u>

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

	(Thousands of dollars)		
	<b>June 30 2008</b>	June 30 2007	December 31 2007
Amortized cost	<u>\$ 3,322,318</u>	\$ 2,738,802	\$ 3,500,954
Fair value	<u>\$ 3,305,894</u>	<u>\$ 2,721,715</u>	<u>\$ 3,486,341</u>

Total securities recorded in the Interim Consolidated Balance Sheets are as follows.

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(Thousands of dollars)

<b>June 30 2008</b>	June 30 2007	December 31 2007
<b><u>\$ 3,672,784</u></b>	<b><u>\$ 2,769,601</u></b>	<b><u>\$ 3,753,662</u></b>

The composition of Central's security portfolio is as follows

(Millions of dollars)

	<b>June 30 2008</b>	June 30 2007	December 31 2007
Government & guarantees	\$ 356.7	\$ 287.9	\$ 465.3
Corporate & major financial Institutions R-1(Mid) or greater	<b>3,033.4</b>	2,195.7	2,950.5
Other	<u>282.7</u>	<u>286.0</u>	<u>337.9</u>
	<b><u>\$ 3,672.8</u></b>	<b><u>\$ 2,769.6</u></b>	<b><u>\$ 3,753.7</u></b>

At the period-end, securities having a book value of \$207.2 million (June 30, 2007 - \$161.6 million; December 31, 2007 - \$315.8 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.

Securities classified as Available for Sale include third party asset-backed commercial paper (ABCP) with a par value of \$23.0 million. When purchased, these securities were rated R-1 (High) by Dominion Bond Rating Service. The ABCP holdings did not settle at their scheduled maturity dates and there has been no active trading of the ABCP since mid-August, 2007.

The Pan-Canadian Investors Committee, which represents holders of ABCP securities subject to the Montreal Accord, has developed a restructuring proposal for the ABCP. Under this proposal, the underlying assets of the ABCP would be segregated between those that are eligible for the restructuring process and those which are not eligible.

Separate classes of notes would be issued to investors representing their respective holdings of eligible assets in each of the ABCP conduits based on the relative fair value of those assets. Class A-1 and A-2 notes would be interest bearing, and the repayment of principal on these notes would be required before interest and principal payments could be made to Class B and C note holders. Investors may also receive Ineligible Asset Tracking Notes (IATN's) in respect of their ineligible assets. The payment of interest and principal on all classes would be subject to would be subject to certain conditions.

Central has estimated the fair value of its ABCP holdings by discounting the expected future cash flows on the Classes A-1, A-2, B and C notes that Central expects to receive under the restructuring plan. In forecasting the expected future cash flows Central has made assumptions as to the timing and amount of cash flows expected to be received as well as market yield expectations on those instruments. Additionally, Central has made assumptions as to the fair value of IATN's that it expects to receive as part of the restructuring process.

During the six months ended June 30, 2008, Central recorded a charge to Net Income of \$1.6 million (six months ended June 30, 2007 - \$0.0 million; year ended December 31, 2007 - \$2.9 million) to reflect its best estimate of the expected future cash flows on its ABCP holdings. This adjustment is included in Changes in fair value of financial instruments.

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As at June 30, 2008 the total provision related to Central's ABCP holdings was \$4.5 million (June 30, 2007 - \$0.0 million). Uncertainty remains with respect to the timing and amount of future cash flows on the ABCP that could give rise to a material change in the value of Central's ABCP holdings.

**5. Amounts on deposit with regulated financial institutions**

Amounts on deposit with regulated financial institutions designated as trading are as follows.

(Thousands of dollars)

	<b>June 30 2008</b>	June 30 2007	December 31 2007
Amortized cost	<u>\$ 26,087</u>	<u>\$ 16,195</u>	<u>\$ 25,064</u>
Fair value	<u>\$ 26,220</u>	<u>\$ 16,187</u>	<u>\$ 25,194</u>

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

(Thousands of dollars)

	<b>June 30 2008</b>	June 30 2007	December 31 2007
Amortized cost	<u>\$ 141,510</u>	<u>\$ 307,230</u>	<u>\$ 183,885</u>
Fair value	<u>\$ 143,142</u>	<u>\$ 306,489</u>	<u>\$ 185,864</u>

Total amounts on deposit with regulated financial institutions recorded in the Interim Consolidated Balance Sheets are as follows.

(Thousands of dollars)

	<b>June 30 2008</b>	June 30 2007	December 31 2007
	<u>\$ 169,362</u>	<u>\$ 322,676</u>	<u>\$ 211,058</u>

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**6. Loans**

		(Thousands of dollars)		
		June 30	June 30	December 31
		2008	2007	2007
Due on demand - Credit unions		\$ 33,175	\$ 60,382	\$ 29,318
	- Co-operatives and others	<u>6,280</u>	<u>2,260</u>	<u>4,116</u>
		<u>39,455</u>	<u>62,642</u>	<u>33,434</u>
Term	- Credit unions	1,325,795	1,421,291	1,414,506
	- Co-operatives & others	17,125	13,170	16,339
	- Officers and employees	<u>15,784</u>	<u>14,509</u>	<u>15,869</u>
		<u>1,358,704</u>	<u>1,448,970</u>	<u>1,446,714</u>
		1,398,159	1,511,612	1,480,148
Accrued interest		<u>4,759</u>	<u>5,216</u>	<u>3,896</u>
		1,402,918	1,516,828	1,484,044
Allowance for losses (specific)		<u>1,032</u>	<u>1,094</u>	<u>1,066</u>
		<u>\$ 1,401,886</u>	<u>\$ 1,515,734</u>	<u>\$ 1,482,978</u>

Officer and employee loans bear interest at rates varying from 2.287% to 5.185%.

**7. Other assets**

		(Thousands of dollars)		
		June 30	June 30	December 31
		2008	2007	2007
Market revaluation of trading derivatives		\$ 35,273	\$ 60,466	\$ 57,836
Assets available for sale designated as trading		19,760	-	20,715
Assets available for sale at amortized cost		77,828	94,524	84,805
Accounts receivable		3,247	1,932	2,114
Prepaid expenses		2,890	3,060	2,360
Income taxes receivable		1,000	2,903	-
Future income taxes (Note 15)		<u>4,912</u>	<u>1,988</u>	<u>4,291</u>
		<u>\$ 144,910</u>	<u>\$ 164,873</u>	<u>\$ 172,121</u>

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**8. Loan Securitizations**

During the three months ended June 30, 2008, Central securitized mortgages with Canada Housing Trust (the Trust) with a book value of \$349.6 million which had been acquired from member credit unions.

The fair value of derivative contracts acquired as a result of these transactions, together with proceeds received from the Trust, totalled \$351.8 million (three months ended June 30, 2007 - \$166.1 million); year ended December 31, 2007 - \$987.4 million) which resulted in a gain on these transaction of \$2.2 million (three months ended March 31, 2007 - \$1.4 million, year ended December 31, 2007 - \$7.2 million) which was recorded in Gain on disposal of financial instruments.

The total principal amount of loans securitized by Central outstanding at June 30, 2008 was **\$1,595.2** million (June 30, 2007 - \$169.4 million; December 31, 2007 - \$947.0 million)

**9. Notes**

	(Thousands of dollars)		
	<b>June 30 2008</b>	June 30 2007	December 31 2007
Operating lines			
- with Credit Union Central of Canada	\$ -	\$ -	\$ 44,839
- with other regulated financial institutions	<u>-</u>	<u>1,379</u>	<u>-</u>
	<u>-</u>	<u>1,379</u>	<u>44,839</u>
Notes			
- due within three months	<b>542,618</b>	556,902	494,736
- due after three months and within one year	-	99,960	124,953
- due after one year and less than five years	<u>274,985</u>	<u>224,902</u>	<u>299,983</u>
	<u><b>817,603</b></u>	<u>881,764</u>	<u>919,672</u>
	<b>817,603</b>	883,143	964,511
Accrued interest	<u>2,314</u>	<u>1,861</u>	<u>4,263</u>
	<u><b>\$ 819,917</b></u>	<u>\$ 885,004</u>	<u>\$ 968,774</u>

Notes are recognized in the Interim Consolidated Financial Statements at amortized cost.

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 mid term note facility. At June 30, 2008, **\$417.6** million was borrowed under the short term commercial paper facility (June 30, 2007 - \$433.0 million; December 31, 2007 - \$394.7 million) and **\$400.0** million was borrowed under the mid term note facility (June 30, 2007 - \$450.0 million; December 31, 2007 - \$525.0 million).

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**10. Deposits**

Deposits designated as trading are as follows.

	(Thousands of dollars)		
	<b>June 30</b>	June 30	December 31
	<b>2008</b>	2007	2007
Amortized cost	<u>\$ 832,426</u>	<u>\$ 1,118,263</u>	<u>\$ 2,424,967</u>
Fair value	<u>\$ 840,022</u>	<u>\$ 1,181,190</u>	<u>\$ 2,426,480</u>

Deposits classified as other liabilities are as follows.

	(Thousands of dollars)		
	<b>June 30</b>	June 30	December 31
	<b>2008</b>	2007	2007
Due on demand	<b>\$ 198,948</b>	\$ 128,665	\$ 143,489
Due within three months	<b>1,903,648</b>	866,905	575,378
Due after three months and within one year	<b>518,933</b>	472,798	344,978
Due after one year and less than five years	<b>680,463</b>	860,404	704,575
Due after five years and less than six years	<u>400</u>	<u>786</u>	<u>284</u>
	<b>3,302,392</b>	2,329,558	1,768,704
Accrued interest	<u>28,633</u>	<u>31,782</u>	<u>28,193</u>
	<u><b>\$ 3,331,025</b></u>	<u>\$ 2,361,340</u>	<u>\$ 1,796,897</u>

Total deposits recorded in the Interim Consolidated Balance Sheets are as follows.

	(Thousands of dollars)		
	<b>June 30</b>	June 30	December 31
	<b>2008</b>	2007	2007
	<u><b>\$ 4,171,047</b></u>	<u>\$ 3,542,530</u>	<u>\$ 4,223,377</u>

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**11. Other liabilities**

(Thousands of dollars)

	<b>June 30</b>	June 30	December 31
	<b>2008</b>	2007	2007
Market revaluation of trading derivatives	\$ 23,630	\$ 73,243	\$ 62,494
Settlements-in-transit	76,145	98,973	56,713
Dividends	3,246	4,730	9,455
Future income taxes (Note 15)	917	1,874	975
Accrued vacation and sick benefits	1,290	1,313	1,281
Employee future benefits	12,916	11,072	11,984
Trade amounts and other	<u>8,721</u>	<u>4,913</u>	<u>7,545</u>
	<u>\$ 126,865</u>	<u>\$ 196,118</u>	<u>\$ 150,447</u>

**12. Subordinated Debt**

On December 21, 2006, Central issued a \$50 million note due December 21, 2016. The note bears interest at a fixed rate of 4.523% until December 21, 2011, and thereafter at a floating rate based on the 90-day Banker's Acceptance Rate. Central has the option to redeem the note on December 21, 2011, subject to regulatory approval.

The note is recognized in the Interim Consolidated Financial Statements at amortized cost, with basis adjustment for hedge accounting.

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

(Thousands of dollars)

	For the three months		For the six months ended	
	ended		ended	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Trading assets	\$ (5,389)	\$ (598)	\$ (1,368)	\$ (531)
Trading deposits	5,635	5,362	(6,083)	5,160
Adjustment of ABCP holdings to fair value as described in Note 4	(61)	-	(1,645)	-
Ineffective portion of cash flow hedges	14	(65)	55	(24)
Ineffective portion of fair value hedges	5	10	41	47
Trading derivatives	<u>(1,580)</u>	<u>(4,450)</u>	<u>303</u>	<u>(3,802)</u>
	<u>\$ (1,376)</u>	<u>\$ 259</u>	<u>\$ (8,697)</u>	<u>\$ 850</u>

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**14. Other Income**

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Membership Dues	\$ 1,278	\$ 1,176	\$ 2,503	\$ 2,319
Provincial Advertising Assessment	625	609	1,249	1,218
Technology & Payment Services				
- Processing	6,088	5,360	11,614	10,379
- Technical Operations	573	502	1,045	915
- Internet banking	2,783	2,639	5,230	4,543
Financial Services				
- Treasury Services	172	282	353	511
- Funding Services	706	330	1,168	652
- Property rents	297	334	564	656
- Other	369	154	1,093	757
Trade Services				
- Risk Management	646	447	1,244	948
- Manuals	266	272	508	516
- Registered Plans	477	462	956	929
- Other	<u>1,087</u>	<u>752</u>	<u>1,848</u>	<u>1,490</u>
	<u>\$ 15,367</u>	<u>\$ 13,319</u>	<u>\$ 29,375</u>	<u>\$ 25,833</u>

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**15. Provision for income taxes**

Income taxes reported in the financial statements are as follows:

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Provision for income taxes in Statement of Income	\$ 1,465	\$ 1,205	\$ 2,488	\$ 2,312
Income tax benefit related to dividends accrued	<u>( 200)</u>	<u>( 424)</u>	<u>( 486)</u>	<u>( 836)</u>
Total	<u>\$ 1,265</u>	<u>\$ 781</u>	<u>\$ 2,002</u>	<u>\$ 1,476</u>

Components of total income taxes are as follows:

Current income taxes	\$ 545	\$ (74)	\$ 3,165	\$ 750
Future income taxes	<u>720</u>	<u>855</u>	<u>(1,163)</u>	<u>726</u>
Total	<u>\$ 1,265</u>	<u>\$ 781</u>	<u>\$ 2,002</u>	<u>\$ 1,476</u>

Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 32.0% (2007 – 34.1%) to income before taxes. The reasons for this are as follows:

	For the three months ended		For the six months ended	
	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
	%	%	%	%
Combined federal and provincial statutory income tax rates	32.0	34.1	32.0	34.1
Reduction available to credit unions	<u>(17.0)</u>	<u>(16.0)</u>	<u>(17.0)</u>	<u>(16.0)</u>
Other	<u>0.9</u>	<u>(0.5)</u>	<u>1.3</u>	<u>(0.4)</u>
Total	<u>15.9</u>	<u>17.6</u>	<u>16.3</u>	<u>17.7</u>

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Components of future income tax balances are as follows:

	(Thousands of dollars)		
	<b>June 30</b>	June 30	December 31
	<b>2008</b>	2007	2007
Future income tax assets:			
Financial instruments	\$ 2,312	\$ 123	\$ 2,064
Employee future benefits	1,873	1,727	1,857
Other	<u>727</u>	<u>138</u>	<u>370</u>
	<u><b>4,912</b></u>	<u>1,988</u>	<u>4,291</u>
Future income tax liabilities:			
Financial instruments	320	1,231	374
Premises and equipment	440	433	521
Computer hardware and software	<u>157</u>	<u>210</u>	<u>80</u>
Total	<u><b>917</b></u>	<u>1,874</u>	<u>975</u>
	<u><b>\$ 3,995</b></u>	<u>\$ 114</u>	<u>\$ 3,316</u>

No valuation allowance has been recorded against the future income tax assets as Central has determined that it is more likely than not that the future income tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

**16. 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 member's financial needs. These 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)

	<b>June 30</b>	June 30	December 31
	<b>2008</b>	2007	2007
Financial instruments whose contract amounts could represent credit risk:			
Standby letters of credit	\$ 219,413	\$ 234,137	\$ 693,769
Commitments to extend credit	\$ 1,836,482	\$ 2,009,746	\$ 1,824,529

Central is involved in a legal action in the ordinary course of business. The likelihood of a loss and amount of loss, if any, resulting from this proceeding is not readily determinable.

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**17. 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.

(Millions of dollars)	<u>Floating<sup>(1)</sup></u>	<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	\$ 48.4 3.50%	\$ - -	\$ - -	\$ - -	\$ - -	\$ - -	\$ 48.4 3.50%
Securities	- -	2,136.5 3.35%	296.4 3.71%	1,146.3 4.48%	76.1 4.25%	17.4 -	3,672.7 3.73%
Amounts on deposit with regulated financial institutions	- -	99.0 3.75%	33.6 4.24%	33.3 5.05%	- -	3.5 -	169.4 4.02%
Loans	39.5 5.29%	1,231.5 3.73%	110.5 3.82%	14.8 3.00%	- -	5.6 -	1,401.9 3.68%
Other assets	- -	10.9 4.19%	9.8 4.54%	74.5 4.93%	1.0 5.50%	61.8 -	158.0 2.94%
Total	<u>\$ 87.9</u> 4.30%	<u>\$ 3,477.9</u> 3.50%	<u>\$ 450.3</u> 3.79%	<u>\$ 1,268.9</u> 4.46%	<u>\$ 77.1</u> 4.27%	<u>\$ 88.3</u> -	<u>\$ 5,450.4</u> 3.72%
<b>Liabilities</b>							
Notes	\$ - -	\$ 817.6 3.34%	\$ - -	\$ - -	\$ - -	\$ 2.3 -	\$ 819.9 3.33%
Deposits	198.9 2.50%	2,090.9 3.20%	872.1 3.89%	952.5 4.13%	0.4 3.86%	56.2 -	4,171.0 3.48%
Subordinated Debt	- -	- -	- -	49.8 4.53%	- -	0.7 -	50.5 4.47%
Other liabilities	- -	- -	- -	- -	- -	126.9 -	126.9 -
Members' Equity	- -	- -	- -	- -	- -	282.1 -	282.1 -
Total	<u>\$ 198.9</u> 2.50%	<u>\$ 2,908.5</u> 3.24%	<u>\$ 872.1</u> 3.89%	<u>\$ 1,002.3</u> 4.15%	<u>\$ 0.4</u> 3.86%	<u>\$ 468.2</u> -	<u>\$ 5,450.4</u> 3.21%
On Balance Sheet Gap	(111.0)	569.4	(421.8)	266.6	76.7	(379.9)	
Off Balance Sheet Gap	-	(550.9)	459.7	128.7	(37.5)	-	
Total Gap – June 30, 2008	<u>\$ (111.0)</u>	<u>\$ 18.5</u>	<u>\$ 37.9</u>	<u>\$ 395.3</u>	<u>39.2</u>	<u>\$ (379.9)</u>	
Total Gap – June 30, 2007	<u>\$ (41.0)</u>	<u>\$ 106.7</u>	<u>\$ 105.0</u>	<u>\$ 62.8</u>	<u>\$ 46.5</u>	<u>\$ (280.0)</u>	
Total Gap – December 31, 2007	<u>\$ (126.3)</u>	<u>\$ 132.4</u>	<u>\$ 312.3</u>	<u>\$ 17.6</u>	<u>\$ 42.7</u>	<u>\$ (378.7)</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.

**18. 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 3. Fair values have not been attributed to assets and liabilities that are not considered financial instruments, such as capital assets.

(Millions of dollars)	Fair Value		Book Value		Unrealized Gain (Loss)	
	<u>June 30</u> <u>2008</u>	June 30 <u>2007</u>	<u>June 30</u> <u>2008</u>	June 30 <u>2007</u>	<u>June 30</u> <u>2008</u>	June 30 <u>2007</u>
<b>Assets</b>						
Cash	\$ 48.41	\$ 140.30	\$ 48.41	\$ 140.30	\$ -	\$ -
Securities	3,672.78	2,769.60	3,672.78	2,769.60	-	-
Amounts on deposit with regulated financial institutions	169.36	322.67	169.36	322.67	-	-
Loans	1,402.67	1,515.46	1,401.89	1,515.73	.78	(0.27)
Other assets	147.79	163.49	144.91	164.87	2.88	(1.38)
<b>Liabilities</b>						
Notes & Deposits	4,998.57	4,414.15	4,990.97	4,427.53	(7.60)	13.38
Subordinated Debt	49.48	48.20	50.49	48.56	1.01	0.36
<b>Off-Balance Sheet Financial Instruments</b>						
Derivatives	11.64	(5.47)	11.64	(5.47)	-	-
<b>Total</b>					<u>\$ (2.93)</u>	<u>\$ 12.09</u>

Central's net unrealized gain as at December 31, 2007 was \$2.37 million (December 31, 2006 – 1.27 million)

**19. Nature and extent of risks arising from financial instruments**

The nature of Central's holdings of financial instruments exposes Central to credit, liquidity and market risk.

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in Central's lending operations, its investment activities and

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its payment and settlement operations. Central's policies and procedures for managing credit risk are presented in the Management's Discussion and Analysis (MD&A) on page 31 of our 2007 Annual Report. Summary information regarding Central's securities and loans is included in Notes 4 and 6 of the interim consolidated financial statements.

Liquidity risk is the risk of being unable to obtain funds at a reasonable price or within a reasonable time period to meet obligations as they come due. The contractual maturity of Central's non-trading notes and deposits is included in notes 9 and 10 of the interim consolidated financial statements. Central's role as liquidity provider for its member credit unions is described in the MD&A on page 31 of our 2007 Annual Report and Central's policies and procedures for managing liquidity risk are presented in the MD&A on pages 41 to 43 of our 2007 Annual Report. Financial guarantees, issued by Central on behalf of its members, are summarized in note 16 of the interim consolidated financial statements.

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and market prices. Central's policies and procedures for managing market risk are included in the MD&A on pages 30 to 32 of our 2007 Annual Report. Information regarding the weighted average yields and costs of Central's assets and liabilities and information on the fair value of financial assets and liabilities is contained in notes 17 and 18 of the interim consolidated financial statements.

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 income and economic value of Members' Equity.

Before Tax Impact of:	(Thousands of Dollars)			
	Interest Margin		Fair value of net assets	
	Amount	Percentage of Base Forecast	Amount	Percentage of Base Forecast
200 bp increase in rates	4,241	11.7	(13,873)	(4.5)
200 bp decrease in rates	(4,599)	(12.6)	9,240	3.0

**20. 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 required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Provincial regulations, which apply to B.C. credit unions as well as Central, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk-weighted capital, calculated by dividing regulatory capital by risk-weighted assets, must exceed 8 percent. Furthermore, Central must maintain a risk-weighted capital ratio of at least 10 percent to enable member credit unions to risk-weight their deposits with Central at zero percent.

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In determining its capital base for both the federal and provincial capital tests, Central may include its subordinated debt subject to certain conditions. Certain deductions from regulatory capital may also be required based on balances recognized in Central's Interim Consolidated Financial Statements.

At period-end, Central was in compliance with these regulatory requirements as indicated below:

	Regulatory Requirement	<u>2008</u>	<u>2007</u>
Federal Borrowing Multiple	20:1	15.7	14.2
Provincial Risk-Weighted Ratio	8%	23.3%	23.8%

**21. Comparative amounts**

Certain comparative amounts have been reclassified to conform to current period presentation.

**22. Subsequent Event**

On July 1, 2008 Central acquired substantially all of the assets of Credit Union Central of Ontario Limited (CUCO) in exchange for assuming the liabilities of CUCO, shares of Central and cash. The amount paid by Central to acquire these assets will be determined in accordance with the provision of the combination agreement between Central and CUCO (the Agreement). Under the terms of the Agreement, Central will pay an amount equal to the values of the assets recognized in CUCO's June 30, 2008 financial statements plus certain adjustments, some of which are dependent on the occurrence or non-occurrence of future events. As such, the final purchase price is not readily determinable.

The combined organization is expected to have assets in excess of \$7.5 billion, the majority of which will consist of highly rated liquid securities or loans to member credit unions, in keeping with Central's role as liquidity manager for both BC credit unions and its member credit unions in Ontario.