



## **Second Quarter Report 2011**

### **REPORT TO MEMBERS**

#### **CENTRAL 1 REPORTS RESULTS FOR SECOND QUARTER OF 2011**

Second quarter highlights compared to the same period last year:

- Central's Profit for the period of \$9.7 million, compared to \$10.7 million
- Central's Return on equity of 6.3%, compared to 7.5%
- Central's assets of \$15.0 billion, up 10.3% from \$13.6 billion
- B.C. system<sup>(1)</sup> Net operating income<sup>(2)</sup> of \$99.0 million, versus \$92.0 million
- B.C. system assets of \$52.8 billion, up 8.7% from \$48.6 billion
- Ontario system<sup>(3)</sup> Net operating income<sup>(2)</sup> of \$31.9 million, versus \$28.0 million
- Ontario system assets of \$25.3 billion, up 13.5% from \$22.3 billion.

Central recorded Net financial income of \$17.1 million and Profit of \$9.7 million during the second quarter, compared to \$18.0 million and \$10.7 million respectively, during the same period last year. Central's Other income was \$25.3 million, an increase of \$0.4 million over the same period last year, while Operating expenses decreased by \$1.8 million to \$30.7 million. Assets, at \$15.0 billion, increased 10.3% from \$13.6 billion as at June 30, 2010.

Global financial markets remained volatile in the second quarter of 2011 with renewed investor concerns about the European sovereign debt crisis, uncertainty surrounding the impact of the end of the Federal Reserve's second round of quantitative easing and a slowdown in emerging economies.

In the United States, economic growth in the second quarter was slower than expected with consumer confidence remaining depressed and continuing challenges in the housing market proving a drag on the economy. Unemployment remained high, rising to 9.2% at the end of June as hiring slowed. On a positive note, there were signs that the economy is poised for stronger growth in the second half of the year, helped by lower oil prices and an end to the supply chain disruptions caused by the earthquake in Japan.

While Canada's unemployment rate unexpectedly fell in May, the economic growth rate has likely peaked in the second quarter with consumer spending and borrowing activity slowing down as Canadian households' appetite for debt wanes. 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.

Canadian government bond yields decreased across the yield curve with long term yields declining more than short term yields. Interest rate swap spreads widened, while credit spreads tightened during the period

Volatility in global financial markets is expected to continue in the third quarter and beyond pending resolution of the European sovereign debt crisis, continued political unrest in the Middle East and inflation concerns that pose a threat to the global economic recovery.

The slowdown of the wider Canadian economy was also reflected in B.C. and Ontario in the second quarter. While labour markets improved in the quarter, slowing domestic demand and lower SME business confidence readings point to a slowdown in the second half of the year.

The B.C. system earned \$99.0 million before taxes, dividends and patronage refunds in the second quarter of 2011, up 7.6% from the \$92.0 million earned during the same period in 2010. Combined assets of the B.C. system in the same period rose 8.7%, year-over-year, to reach \$52.8 billion at quarter-end.

The Ontario system earned \$31.9 million before taxes, dividends and patronage refunds in the second quarter, up from the \$28.0 million during the same period in 2010. Combined assets of the Ontario system in the same period rose 13.5%, year-over-year, to reach \$25.3 billion at quarter-end. A significant part of the increase in system assets was due to the amalgamation of Meridian and Desjardins Credit Unions which resulted in Meridian acquiring approximately \$1.4 billion in assets from Desjardins, a non-member, in June 2011.

- (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 June 30, 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 June 30, 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 for the three months ended March 31, 2011 which may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Prior to 2011, 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, including securitizations, 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 Central's 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. However, 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, 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 second quarter of 2011, Central recorded Profit of \$9.7 million or 5.8 cents per share, compared to \$10.7 million or 6.6 cents per share last year.

Net financial income was \$17.1 million compared with \$18.0 million posted in the second quarter of 2010.

During the quarter, Canadian government bond yields decreased across the yield curve, with long term yields declining more than short term yields. Meanwhile, interest rate swap spreads widened and credit spreads narrowed. As Central is a purchaser of provincial and corporate bonds and pays fixed rates on interest rate swaps to neutralize its exposure to interest rates, these market developments had a net favourable impact on income. Notes 23 & 24 of Central's interim consolidated financial statements indicate that Central had net mark-to-market gains of \$2.6 million during the second quarter, compared to net gains of \$4.3 million the previous year.

Other income of \$25.3 million for the quarter was higher than the \$24.9 million earned in the second 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 \$30.7 million, compared to \$32.5 million incurred last year.

Central's financial condition remained sound in the second quarter and capital ratios remain well within statutory limits. Central's borrowing multiple increased from 15.7:1 at December 31, 2010 to 17.3:1 at quarter-end, reflecting an increase in deposits taken from its member credit unions. At the quarter-end, Central's risk-weighted capital ratio was 32.7% compared to 34.5% at December 31, 2010.

In November 2010, CUCC, Central and the provincial centrals of Alberta, Manitoba and Saskatchewan (collectively the Prairie Centrals) announced an agreement in principle to reorganize group clearing activities. Under the terms of the new arrangement, which was put in place in July 2011, Central took on the role of Group Clearer. Also in July, 2011 the National Liquidity Fund Agreement (NLFA) was replaced by a new liquidity support structure governed by agreements among Central and the Prairie Centrals. Further details are provided in the Events Subsequent to the End of Reporting Period section below.

### *B.C. System*

B.C. system net operating income for the quarter was \$99.0 million, compared to \$92.0 million for the second quarter of 2010. Non-financial income and expense increased by 9.9% and 3.7% respectively from the same period last year, and B.C. system financial margin increased by 3.2% or \$9.4 million year-over-year. The B.C. system's regulatory risk-weighted capital was 14.5% a slight increase from 14.2% a year ago.

Demand for loans remained strong, with total B.C. system net loans increasing by 7.8% year-over-year to reach \$43.7 billion while deposits grew by 6.0%. Asset growth was mainly concentrated in residential mortgages which grew by 9.2% from a year ago and commercial mortgages, which grew by 7.1% year-over-year. B.C. system loan delinquencies over 90 days decreased to 0.64% of total loans compared to 0.82% a year ago. System provisions for credit losses as a percentage of average loans were 0.51% as of June 30, 2011, a slight decrease from 0.57% one year earlier.

Overall liquidity within the B.C. system, including that held by Central, was 14.6% of deposit and debt liabilities, up from 13.0% a year ago. Deposits with credit unions grew year-over-year by 6.0%, below loan growth of 7.8%. Holdings of liquid assets increased by 16.0% year-over-year, while borrowings from Central and other lenders decreased by 122.1%.

### *Ontario System*

Ontario system net operating income for the quarter was \$31.9 million, compared to \$28.0 million for the second quarter of 2010. Non-financial income increased by 7.7% from the same period last year, and non-financial expense increased by 10.3%. Ontario system financial margin increased by 11.7% or \$16.8 million, year-over-year. The Ontario system's regulatory risk-weighted capital was 7.2% down from 7.4% a year ago.

Demand for loans grew faster than deposits, as total Ontario system loans increased by 12.2% year-over-year to reach \$20.9 billion while deposits grew by 12.0% to \$22.4 billion. Residential mortgages grew by 17.6% from a year ago while Commercial loans grew by 7.8% in contrast to personal loans which fell by 0.5%, year-over-year. The amalgamation of Meridian and Desjardins Credit Unions had a significant impact on the increase in Ontario system assets in the second quarter of 2011.

Credit quality of loan portfolios improved slightly over the past year as loan delinquencies over 90 days were 0.75% at June 30, 2011 compared to 0.82% a year ago. System provisions for credit losses as a percentage of loans have increased during the past year to 0.14% versus 0.10% for the same period last year.

Overall liquidity within the Ontario system, including that held by Central, was 14.7% of deposit and debt liabilities as of June 30, 2011, compared to 12.8% a year ago. Holdings of liquid assets increased 30.5% year-over-year while borrowings from Central and other lenders increased by 132.2%.

**Figure 1 - Selected Financial Information**

	<b>For the Three Months Ended</b>		<b><u>Difference</u></b>
	<b><u>June 30</u></b> <b><u>2011</u></b>	<b><u>June 30</u></b> <b><u>2010</u></b>	
<b>Earnings</b>			
Net financial income ( <i>\$ millions</i> )	\$ 17.1	\$ 18.0	\$ (0.9)
Net financial and other income ( <i>\$ millions</i> )	42.0	43.0	(1.0)
Profit for the period ( <i>\$ millions</i> )	9.7	10.7	(1.0)
Weighted average shares outstanding ( <i>\$ millions</i> )	168.1	162.6	5.5
<b>Earnings per Share (cents)</b>			
Basic	5.8	6.6	(0.8)
Fully diluted	5.8	6.6	(0.8)
<b>Return on</b>			
Average assets	0.3%	0.3%	(0.0%)
Average equity	6.3%	7.5%	(1.2%)
<b>Balance Sheet Data (\$ billions)</b>			
Total assets	\$ 15.0	\$ 13.6	\$ 1.4
Average assets	14.5	13.9	0.6
Long term financial liabilities	6.4	6.4	-
<b>Regulatory Capital Ratios</b>			
Tier 1 capital ratio	22.0	23.0	(1.0)
Total capital ratio	32.7	35.3	(2.6)
Borrowing multiple (times)	17.3	16.1	1.2
<b>Share Information</b>			
Outstanding \$1 par value Shares ( <i>\$ thousands</i> )			
Class A - credit unions	169,605	162,532	7,073
Class B - cooperatives	5	5	-
Class C - other	7	7	-
Outstanding \$0.01 par value Shares with redemption value of \$100 ( <i>\$ thousands</i> )			
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 \$17.1 million for the quarter, compared with \$18.0 million for the same period last year.

Interest margin, at \$14.6 million, increased from \$13.7 million in the second quarter of last year as average assets increased from \$13.9 billion to \$14.5 billion during the period. As a percentage of average assets, Interest margin increased from 39.5 basis points in the second quarter of 2010 to 40.3 basis points in the second quarter of 2011.

During the quarter, Central recorded net unrealized losses of \$9.9 million compared to a net loss of \$1.0 million during the same period last year. However, realized gains on the sale of financial instruments increased during the period from \$5.3 million in 2010 to \$12.5 million for the period ended June 30, 2011. Taken together, Central recorded an overall gain of \$2.6 million on its financial instruments compared to a gain of \$4.3 million in the second quarter of 2010.

Canadian government bond yields decreased across the yield curve, with long term yields declining more than short term yields. The combination of declining interest rates and the narrowing of credit spreads lead to mark-to-market gains on Central's securities portfolio during the quarter.

The decline in interest rates also led to mark to market losses on the derivatives portfolio which were partially offset by the widening of interest rate swap spreads.

The decrease in the short end of the yield curve also had a negative mark-to-market impact on trading deposits over the quarter.

### Other Income

As indicated in Note 25 in Central's interim consolidated financial statements, Other income of \$25.3 million for the quarter was higher than the \$24.9 million earned in the second quarter of 2010. Central's proportionate share of the income of its affiliates under the equity method of accounting decreased from \$1.3 million in 2010 to nil during the second quarter of 2011. Income earned in Central's other operating areas increased from \$23.6 million in the second quarter of 2010 to \$25.3 million for the three months ended June 30, 2011 with revenues from Technology and payment services increasing by \$1.3 million compared to the same period in 2010.

## Operating Expenses

Operating expenses for the quarter decreased to \$30.7 million from \$32.5 million last year. Salary costs for the second quarter of 2011 were relatively unchanged compared to the same period in 2010. The decrease in Other administrative expenses is primarily attributable to the occurrence of certain one-time initiatives in 2010 including the transition to International Financial Reporting Standards.

## Income Taxes

Central's effective tax rate for the quarter was 13.9% compared to (3.0)% for the same quarter in 2010. The 2010 effective tax rate reflects the reversal of a future tax liability previously recorded as a result of the business combination between Central and Credit Union Central Ontario (CUCO). Further details are provided in the Note 26 to the Interim Financial Statements which also includes a summary of the components of Central's income tax expense for the quarter.

## Statement of Financial Position

### Cash and Securities

Cash and securities were \$11.4 billion at period end. Of this amount, \$1.9 billion represents reinvestment assets which are designated to offset obligations under the Canada Mortgage Bond (CMB) program. The remaining balance of \$9.5 billion comprises the liquidity pool and represents 72.5% of Central's total assets excluding the reinvestment assets, compared to \$8.2 billion and 66.7% 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 Canadian government debt (federal and provincial) and in senior bank debt (Figure 2).

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

	June 2011		June 2010		Dec 2010	
<b>Cash &amp; Liquid Securities</b>						
Government & Guarantees	\$ 4,002.4		\$ 4,309.6		\$ 3,967.4	
Cash	549.6		120.7		121.3	
	<u>4,552.0</u>	48.2%	<u>4,430.3</u>	54.6%	<u>4,088.7</u>	48.4%
Corporate & Financial Institutions AA or Greater	4,682.9	49.6%	3,471.9	42.8%	4,187.6	49.5%
Corporate - A and other	209.6	2.2%	205.7	2.5%	176.7	2.0%
<b>Total</b>	<u>\$ 9,444.5</u>	100.0%	<u>\$ 8,107.9</u>	100.0%	<u>\$ 8,453.0</u>	100.0%

## Loans

Total loan balances increased to \$1.7 billion from \$1.2 billion at the same time last year.

**Figure 3 - Loans (\$ thousands)**

	<b>June 2011</b>	<b>June 2010</b>	<b>Dec 2010</b>
Loans to Credit Unions	\$ 1,139,951	\$ 830,399	\$ 956,838
Loans to Commercial and Others	185,995	151,465	159,372
Securities acquired under rev repo agreements	420,772	220,515	-
	<u>\$ 1,746,718</u>	<u>\$ 1,202,379</u>	<u>\$ 1,116,210</u>

\* Total loan balances are before the allowance for doubtful loans and exclude accrued interest.

Of these, secured loans to member credit unions increased to \$1.1 billion from \$830 million at the same time last year. The amount advanced under Central's non-credit union loan facilities as at June 30, 2011 was \$606.8 million, up from \$372.0 million in 2010, primarily due to reverse repurchase agreements which amounted to \$420.8 million as at 30 June 2011, compared to \$ 220.5 million a year ago. These loans represented 24.1% of Central's total loan portfolio at quarter-end, up from 18.3% a year ago.

## Borrowings

Figure 4 below summarizes Central's Total borrowings as at 30 June 2011 together with comparative numbers for the end of the second quarter in 2010.

Total Debt securities issued as at June 30, 2011 were \$596 million compared to \$626 million a year ago. Of the total amount outstanding as at June 30, 2011, \$226 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 \$9.3 billion as at June 30, 2011 increased from \$7.5 billion a year ago. Credit union statutory deposits grew by \$0.2 billion over the year, to reach \$5.1 billion at June 30, 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 \$1.6 billion over the past year, reflecting higher amounts of excess liquidity in the credit union system.

Obligations related to assets sold under repurchase agreements were lower from a year ago at \$115.0 million compared to \$500.0 million at June 2010.

**Figure 4 - Borrowings (\$ millions)**

<b>Debt securities issued at amortized cost (\$ thousands)</b>	<b>June 2011</b>	<b>June 2010</b>	<b>Dec 2010</b>
Commercial Paper issued	\$ 370	\$ 400	\$ 395
Medium term notes issued	226	226	226
	<u>596</u>	<u>626</u>	<u>621</u>
<b>Deposits and Trading Liabilities by type (\$ thousands)</b>			
Statutory Liquidity	5,086	4,901	4,982
Excess Liquidity	4,206	2,606	3,231
Deposits from member credit unions	<u>9,292</u>	<u>7,507</u>	<u>8,213</u>
Others	665	620	396
	<u>9,957</u>	<u>8,127</u>	<u>8,609</u>
Securities under repurchase agreements	115	500	162
Total Borrowings	<u>\$ 10,668</u>	<u>\$ 9,252</u>	<u>\$ 9,392</u>

## Securitization Activities

As the senior rated entity in the credit union system and in the normal course of business, Central is 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. 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 5). 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.

## Second Quarter 2011 Compared to First Quarter 2011

Profit for the second quarter of 2011 of \$9.7 million, was down from \$18.3 million in the first quarter. Interest Margin increased to \$14.6 million in the second quarter compared to \$12.8 million in the first quarter of 2011 reflecting both an increase in average assets from \$13.9 billion to \$14.5 billion and an increase in interest margin from 37.1 bps to 40.3 bps.

Gains on disposal of financial instruments and changes in fair value of financial instruments were \$2.5 million overall compared to \$14.4 million in the first quarter as market conditions were less favorable in the second quarter.

Net operating expenses, defined as the difference between Other income and Operating expense decreased from \$6.1 million to \$5.4 million. Other income on the strength of increased direct banking revenues increased from \$23.8 million in the first quarter of 2011 to \$25.3 million in the second quarter. Meanwhile, Operating expenses increased from \$29.9 million in the first quarter to \$30.7 million in the second quarter reflecting increases in salaries and other administrative expenses.

**Figure 5 - Quarterly Earnings**  
(\$ thousands, except as indicated)

	2011/2010				2010/2009			
	Period Ended				Period Ended			
	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10
Total interest income	\$ 78,826	\$ 79,993	\$ 82,570	\$ 85,814	\$ 51,720	\$ 51,203	\$ 72,230	\$ 75,558
Total interest expense	65,732	67,620	69,764	71,235	30,807	32,001	59,216	61,821
Interest margin	13,094	12,373	12,806	14,579	20,913	19,202	13,014	13,737
Gain on disposal of financial instruments	17,522	14,163	12,125	12,476	6,948	4,029	7,032	5,278
Changes in fair value of financial instruments	(16,800)	5,523	2,256	(9,939)	18,956	(2,168)	(6,536)	(972)
Recovery (provision) of credit losses	(310)	(4,203)	12	(442)	54	(1,308)	93	15
Other income	24,188	26,855	23,871	25,278	22,126	23,062	23,686	24,894
Operating expenses	(29,887)	(33,422)	(29,922)	(30,720)	(27,479)	(29,719)	(28,642)	(32,548)
Income taxes	(638)	(3,007)	(2,833)	(1,557)	(5,986)	(1,894)	(1,175)	314
Profit for the period	<u>\$ 7,169</u>	<u>\$ 18,282</u>	<u>\$ 18,315</u>	<u>\$ 9,675</u>	<u>\$ 35,532</u>	<u>\$ 11,204</u>	<u>\$ 7,472</u>	<u>\$ 10,718</u>
Weighted average shares outstanding (millions)	162.6	163.4	166.6	168.1	162.6	162.6	162.6	162.6
Earnings per share								
Basic (cents)	4.4	11.2	11.0	5.8	21.9	6.9	4.6	6.6
Diluted (cents)	4.4	11.2	11.0	5.8	21.9	6.9	4.6	6.6

\* 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 during the quarter and well within both Central's federal and provincial requirements.

<b>Figure 6a - Capital Targets</b>	<b>June 2011</b>	<b>June 2010</b>	<b>Dec 2010</b>	<b>Target</b>	<b>Regulatory Requirement</b>
Total Capital as % of Risk-Weighted Assets (Prov)	32.7%	35.3%	34.5%	> 10%	> 8%
Borrowing Multiple (Fed)	17.3:1	16.1:1	15.7:1	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.

Central's borrowing multiple for federal capital adequacy purposes was 17.3, 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 32.7% during the same period. The increase in the borrowing multiple is primarily driven by the increase in deposits taken from member credit unions.

Central's regulatory capital base for federal purposes is calculated in Figure 6b below. As of June 30, 2011, Central's federal Tier 1 Capital was \$575.9 million and total capital before deductions was \$780.9 million, compared to \$526.6 million and \$731.6 million, respectively, a year earlier. The increase in the total capital before deductions over the past year primarily reflects the growth in retained earnings. The calculation of Central's capital base for provincial purposes is similar to the federal calculation.

<b>Figure 6b - Capital Position (\$ thousands)</b>	<b>June 2011</b>	<b>June 2010</b>	<b>Dec 2010</b>
Share Capital	\$ 169,649	\$ 162,575	\$ 164,983
Contributed Surplus	87,901	87,901	87,901
Retained Earnings	318,373	276,115	295,147
Tier 1 Capital	575,923	526,591	548,031
Tier 2 Capital	204,977	204,977	204,977
Total Capital	780,900	731,568	753,008
Statutory Capital Adjustments	(150,357)	(150,944)	(150,111)
Capital Base (Federal)	\$ 630,543	\$ 580,624	\$ 602,897
Capital Base (Provincial)	\$ 629,219	\$ 587,468	\$ 604,406
Prov Risk Weighted Assets	\$ 1,925,419	\$ 1,664,794	\$ 1,752,990

Subsequent to the end of the quarter, Central issued subordinated debt with par value of \$18.0 million in connection with it assuming the role of Group Clearer as discussed in the section entitled Events Subsequent to the End of the Reporting Period.

At its Annual General Meeting, in April, 2011, Central's members approved the creation of a new share class: Class "D". Pursuant to Central's Rules, Class D shares may only be

issued to existing Class “A”, “B” or “C” members of Central. As at June 30, 2011 no Class “D” shares were issued or outstanding.

## **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 government and senior bank 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 not previously experienced losses on any of 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.

Subsequent to the end of the quarter, the National Liquidity Fund Agreement (NLFA) was replaced by a new liquidity support structure as described in the Events Subsequent to End of the Reporting Period section below.

### **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 25.0% and the limit for changes in fair value of net assets from the base forecast is 20.0%.

For the second quarter of 2011, a 200 bp decrease in interest rates results in a forecasted 21.3% increase in the fair value of net assets, i.e. 1.3% in excess of Central's policy limit of 20.0%. This result is due to the longer duration of Central's assets when compared to its liabilities. Given the current market trend towards lower interest rates, Central is comfortable with its current portfolio position and the policy exception has been both noted and approved.

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	(671)	(1.2)	(65,720)	(10.5)
200 bp decrease in rates	4,161	7.1	132,806	21.3

### Events Subsequent to the End of the Reporting Period

Effective July 6, 2011 Central and the Prairie Centrals completed the transition of Group Clearing for credit unions across the country from Credit Union Central of Canada (CUCC) pursuant to a joint venture agreement.

Under the terms of the agreement, Central took on the role of Group Clearer and now acts as the credit union system's financial institution connection to the Canadian payments system including the Large Value Transfer System and Automated Clearing Settlement System.

As a result of this transition, Central will recognize the Group Clearer assets and liabilities on its statement of financial position which had previously been recognized on CUCC's statement of financial position. In order to capitalize the anticipated increase in regulatory borrowings, on July 6, 2011, Central issued subordinated debt with par value of \$6.0 million to each of the Prairie Centrals. Central has the option to redeem the subordinated debt on or after July 6, 2016, subject to regulatory approval.

Also on July 6, 2011 the NLFA was replaced by a new liquidity support structure governed by a contractual agreement entered into by Central and the Prairie Centrals. The new liquidity structure is designed to allow two centrals to access the liquidity fund at the same time. It is intended to be utilized for localized events, and would not be used in the case of a general market disruption.

## **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 Notes 2 and 3 of the Interim Consolidated Financial Statements.

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. Central's opening IFRS statement of financial position is included in its interim financial consolidated financial statements for the three months ended March 31, 2011.

Central's profit for the six month period ended June 30, 2010 under IFRS was \$18.2 million, which is \$5.5 million higher than the amount previously reported under Canadian GAAP. The impact of adopting the IFRS de-recognition standard accounted for a \$5.9 million gain, with other Canadian GAAP to IFRS adjustments making up the difference.

The tables below (Figures 7 & 8) summarize the overall impact of the transition from Canadian GAAP to IFRS. Note 4 to the consolidated interim financial statements includes additional details regarding the changes from Canadian GAAP to IFRS as at June 30, 2010 and for the period ended June 30, 2010.

**Figure 7 - Central 1 IFRS vs CGAAP Reconciliation (\$ thousands)**

	30-Jun-10			
	CGAAP	Securitization	Non Securitization	IFRS
<b>Assets</b>				
Cash and cash equivalents	120,796		(54)	120,742
Amounts on deposit with regulated financial institutions	143,482		5,131	148,613
Pledged trading assets	-		282,239	282,239
Reinvestment assets under the Canada Mortgage Bond Program	-	1,313,879	-	1,313,879
Non-pledged trading assets	-	(433,621)	4,175,712	3,742,091
Derivative assets held for risk management	-	80,326	59,401	139,727
Loans	1,201,239	(1,352)	(1,177)	1,198,710
Investment securities	8,500,070	(45,685)	(4,445,901)	4,008,484
Secured loans to members under the Canada Mortgage Bond Program	-	2,384,309	-	2,384,309
Current tax assets	-	-	12,848	12,848
Property and equipment	15,181	-	2,176	17,357
Intangible assets	-	-	3,405	3,405
Deferred tax assets	-	-	4,610	4,610
Investment in affiliates	-	-	127,055	127,055
Other assets	286,640	-	(199,888)	86,752
<b>Total Assets</b>	<b>10,267,408</b>	<b>3,297,856</b>	<b>25,557</b>	<b>13,590,821</b>
<b>Liabilities</b>				
Trading liabilities	-		1,984,064	1,984,064
Derivative liabilities held for risk management	-		90,517	90,517
Debt securities issued	625,597	-	-	625,597
Deposits	8,140,023	-	(1,997,333)	6,142,690
Obligations under the Canada Mortgage Bond Program	-	3,295,579	-	3,295,579
Subordinated liabilities	200,544	-	-	200,544
Provisions	-	-	6,787	6,787
Securities under repurchase agreement	499,641	-	-	499,641
Deferred tax liabilities	-	325	2,066	2,391
Other liabilities	244,525	-	(90,103)	154,422
<b>Total Liabilities</b>	<b>9,710,330</b>	<b>3,295,904</b>	<b>(4,002)</b>	<b>13,002,232</b>
<b>Members' Equity</b>				
Share capital and share premium	162,576	-	-	162,576
Contributed surplus	87,901	-	-	87,901
Retained earnings	270,670	2,595	7,823	281,088
Accumulated other comprehensive income	35,931	(643)	7,230	42,518
Reserves	-	-	6,134	6,134
<b>Total Equity Attributable To Equity Holders Of Central 1</b>	<b>557,078</b>	<b>1,952</b>	<b>21,187</b>	<b>580,217</b>
Non-controlling interest				8,372
<b>Total Members' Equity</b>	<b>557,078</b>	<b>1,952</b>	<b>21,187</b>	<b>588,589</b>
<b>Total Liabilities and Members' Equity</b>	<b>10,267,408</b>	<b>3,297,856</b>	<b>17,185</b>	<b>13,590,821</b>

**Figure 8 - Central 1 IFRS vs CGAAP Statement of profit and loss reconciliation**  
(\$ thousands)

30-Jun-10

	CGAAP	Securitization	Non Securitization	IFRS
<b>Interest Income</b>				
Investments	87,980	(8,537)	72	79,515
Deposits with regulated FT's	483	-	112	595
Loans	9,689	-	74	9,763
Secured loans and reinvestment assets	-	57,915	-	57,915
	<u>98,152</u>	<u>49,378</u>	<u>258</u>	<u>147,788</u>
<b>Interest Expense</b>				
Borrowed Funds	4,258	-	113	4,371
Deposit Interest	54,366	-	(103)	54,263
Subordinated debt	4,105	-	-	4,105
CMB Obligation	-	58,298	-	58,298
	<u>62,729</u>	<u>58,298</u>	<u>10</u>	<u>121,037</u>
<b>Interest margin</b>	35,423	(8,920)	248	26,751
Gain on disposal of financial instruments	12,040	270	-	12,310
Changes in fair value of financial instruments	(23,162)	15,638	16	(7,508)
	<u>24,301</u>	<u>6,988</u>	<u>264</u>	<u>31,553</u>
<b>Net financial income</b>	24,301	6,988	264	31,553
Provision (recovery) for credit losses	(113)	-	5	(108)
	<u>24,414</u>	<u>6,988</u>	<u>259</u>	<u>31,661</u>
Other income	44,195			48,580
<b>Net financial and other Income</b>	<u>68,609</u>	<u>6,988</u>	<u>259</u>	<u>80,241</u>
<b>Operating expenses</b>				
Salaries and Benefits	27,997		95	28,092
Premises and equipment	4,463		103	4,566
Other administrative expenses	23,612		4,920	28,532
	<u>56,072</u>	<u>-</u>	<u>5,118</u>	<u>61,190</u>
<b>Profit before income taxes</b>	12,537	6,988	(474)	19,051
Income taxes	(155)	999	17	861
<b>Profit for the period</b>	<u>12,692</u>	<u>5,989</u>	<u>(491)</u>	<u>18,190</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, the quarters ended March 31, 2011 and June 30, 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**  
**Consolidated Statement of Financial Position**  
**Unaudited**

	Notes	(Thousands of dollars)		
		June 30 2011	June 30 2010	December 31 2010
<b>Assets</b>				
Cash and cash equivalents		\$ 549,565	\$ 120,742	\$ 121,294
Deposit with regulated financial institutions	7	10,632	148,613	140,565
Pledged trading assets	8	64,536	282,239	160,747
Reinvestment assets under the CMB and IMPP Programs	12	1,919,157	1,313,879	1,643,986
Non-pledged trading assets	8	5,223,866	3,742,091	4,253,134
Derivative assets	9	95,341	139,727	129,096
Loans	10	1,741,291	1,198,710	1,109,180
Investment securities	11	3,648,804	4,008,484	3,962,276
Secured loans to members	12	1,566,579	2,384,309	1,929,850
Current tax assets		99	12,848	3,185
Property and equipment		17,167	17,357	17,089
Intangible assets		2,973	3,405	4,106
Deferred tax assets	13	6,160	4,610	5,721
Investment in affiliates		129,550	127,055	128,862
Other	14	71,360	86,752	59,716
		<u>\$ 15,047,080</u>	<u>\$ 13,590,821</u>	<u>\$ 13,668,807</u>
<b>Liabilities</b>				
Deposits designated as trading	15	\$ 1,977,832	\$ 1,984,064	\$ 2,072,592
Derivative liabilities	16	87,850	90,517	80,123
Debt securities issued	17	596,212	625,597	620,524
Deposits from members	18	7,978,768	6,142,690	6,535,914
Obligations under the CMB and IMPP Programs	12	3,270,962	3,295,579	3,280,112
Subordinated liabilities	19	200,574	200,544	200,574
Provisions		6,484	6,787	6,453
Securities under repurchase agreements	20	114,721	499,641	162,358
Deferred tax liabilities	13	3,106	2,391	2,138
Other	21	182,035	154,422	114,853
		<u>14,418,544</u>	<u>13,002,232</u>	<u>13,075,641</u>
<b>Equity</b>				
Share capital	22	169,649	162,576	164,983
Contributed surplus		87,901	87,901	87,901
Retained earnings		323,351	281,088	300,126
Accumulated other comprehensive income		33,351	42,518	26,190
Reserves		5,934	6,134	5,594
		<u>620,186</u>	<u>580,217</u>	<u>584,794</u>
Total equity attributable to members of Central 1		620,186	580,217	584,794
Non-controlling interest		8,350	8,372	8,372
		<u>628,536</u>	<u>588,589</u>	<u>593,166</u>
		<u>\$ 15,047,080</u>	<u>\$ 13,590,821</u>	<u>\$ 13,668,807</u>

Approved by the Directors:

"Jack Smit"  
Jack Smit, Chairperson

"Fred Wagner"  
Fred Wagner, Chairperson - Audit Committee

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

	Notes	(Thousands of dollars)		(Thousands of dollars)	
		For the three months ended June 30 2011	June 30 2010	For the six months ended June 30 2011	June 30 2010
<b>Interest Income</b>					
Securities		\$ 48,299	\$ 42,121	\$ 94,762	\$ 79,515
Deposit with regulated financial institutions		337	327	672	595
Loans		8,044	4,969	15,249	9,763
Secured loans and reinvestment assets		29,134	28,141	57,701	57,915
		<u>85,814</u>	<u>75,558</u>	<u>168,384</u>	<u>147,788</u>
<b>Interest Expense</b>					
Debt securities issued		3,528	2,891	7,636	4,371
Deposits from members		36,311	27,534	70,690	54,263
Obligations under the CMB and IMPP programs		29,330	29,348	58,542	58,298
Subordinated debt		2,066	2,048	4,131	4,105
		<u>71,235</u>	<u>61,821</u>	<u>140,999</u>	<u>121,037</u>
<b>Interest Margin</b>					
		14,579	13,737	27,385	26,751
Gain on disposal of financial instruments	23	12,476	5,278	24,601	12,310
Changes in fair value of financial instruments	24	(9,939)	(972)	(7,683)	(7,508)
Net financial income		17,116	18,043	44,303	31,553
Provision (recovery) of credit losses	10	442	(15)	430	(108)
		16,674	18,058	43,873	31,661
Other income	25	25,278	24,894	49,149	48,580
Net financial and other income		<u>41,952</u>	<u>42,952</u>	<u>93,022</u>	<u>80,241</u>
<b>Operating Expenses</b>					
Salaries and employee benefits		14,573	14,900	28,928	28,092
Premises and equipment		2,496	2,322	4,824	4,566
Other administrative expenses		13,651	15,326	26,890	28,532
		<u>30,720</u>	<u>32,548</u>	<u>60,642</u>	<u>61,190</u>
<b>Profit before income taxes</b>					
		11,232	10,404	32,380	19,051
Income taxes	26	1,557	(314)	4,390	861
		<u>9,675</u>	<u>10,718</u>	<u>27,990</u>	<u>18,190</u>
Profit for the period		<u>\$ 9,675</u>	<u>\$ 10,718</u>	<u>\$ 27,990</u>	<u>\$ 18,190</u>

See accompanying notes to the interim consolidated financial statements

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

	(Thousands of dollars) For the three months ended		(Thousands of dollars) For the six months ended	
	June 30 2011	June 30 2010	June 30 2011	June 30 2010
Profit for the period	\$ 9,675	\$ 10,718	\$ 27,990	\$ 18,190
Other comprehensive income (loss), net of tax				
Fair value reserve (available-for-sale financial assets)				
Net change in fair value <sup>1</sup>	21,679	12,264	13,602	5,589
Reclassification of gains on available-for-sale assets to profit or loss <sup>2</sup>	(3,673)	(3,804)	(6,441)	(9,117)
	18,006	8,460	7,161	(3,528)
Other comprehensive income (loss), net of tax	18,006	8,460	7,161	(3,528)
Comprehensive income, net of tax	\$ 27,681	\$ 19,178	\$ 35,151	\$ 14,662
Income taxes (recoveries) deducted from the above items				
<sup>1</sup> Net change in fair value of available-for-sale assets	\$ 3,482	\$ 1,958	\$ 2,209	\$ 843
<sup>2</sup> Reclassification of gains on available-for-sale assets to profit or loss	\$ (600)	\$ (635)	\$ (1,053)	\$ (1,521)

See accompanying notes to the interim consolidated financial statements

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

(Thousands of dollars)	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					28,012	28,012	(22)	27,990	
Other comprehensive income, net of tax									
Fair value reserve (available for sale financial assets, net of tax)			7,161			7,161		7,161	
<b>Total comprehensive income</b>	-	-	7,161	-	28,012	35,173	(22)	35,151	
<b>Transactions with owners, recorded directly in equity</b>									
Dividends to members					(4,795)	(4,795)		(4,795)	
Related tax savings					674	674		674	
Class "E" shares redemption, net of tax					(326)	(326)		(326)	
Transfer to reserves				340	(340)	-		-	
Net Class "A", "B" and "C" shares issued	4,666					4,666		4,666	
<b>Total contributions and distributions to owners</b>	4,666	-	-	340	(4,787)	219	-	219	
Balance at June 30, 2011	\$ 169,649	\$ 87,901	\$ 33,351	\$ 5,934	\$ 323,351	\$ 620,186	\$ 8,350	\$ 628,536	

Profit attributable to:

	<u>2011</u>	<u>2010</u>
Members of Central 1	28,012	18,190
Non-controlling interest	(22)	-
	<u>\$ 27,990</u>	<u>\$ 18,190</u>

Total Comprehensive income attributable to:

Members of Central 1	35,173	14,662
Non-controlling interest	(22)	-
	<u>\$ 35,151</u>	<u>\$ 14,662</u>

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

(Thousands of dollars)	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					18,190	18,190		18,190
Other comprehensive income, net of tax								
Fair value reserve (available for sale financial assets, net of tax)			(3,528)			(3,528)		(3,528)
Total comprehensive income	-	-	(3,528)	-	18,190	14,662	-	14,662
<b>Transactions with owners, recorded directly in equity</b>								
Dividends to members					(4,757)	(4,757)		(4,757)
Related tax savings					679	679		679
Transfer from reserves				(491)	491	-		-
Net shares redeemed	(4)					(4)		(4)
Total contributions and distributions to owners	(4)	-	-	(491)	(3,587)	(4,082)	-	(4,082)
Balance at June 30, 2010	\$ 162,576	\$ 87,901	\$ 42,518	\$ 6,134	\$ 281,088	\$ 580,217	\$ 8,372	\$ 588,589

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

	(Thousands of dollars)		(Thousands of dollars)	
	For the three months ended		For the six months ended	
	June 30 2011	June 30 2010	June 30 2011	June 30 2010
<b>Cash flows from operating activities</b>				
Profit for the period	\$ 9,675	\$ 10,718	\$ 27,990	\$ 18,190
Adjustments for:				
Depreciation and amortization	1,370	1,312	2,836	2,654
Net interest income	(14,579)	(13,737)	(27,385)	(26,751)
Gain on disposal of financial instruments	(12,476)	(5,278)	(24,601)	(12,310)
Change in fair value of financial instruments	9,939	972	7,683	7,508
Income tax expense (recovery)	1,557	(314)	4,390	861
Provision (recovery) of credit losses	442	(15)	430	(108)
Other items, net	(4,791)	31,616	53,468	31,199
	(8,863)	25,274	44,811	21,243
Change in trading assets	(516,590)	31,257	(818,700)	(77,397)
Change in loans	(366,413)	11,655	(630,508)	965,225
Change in trading liabilities	(252,393)	(139,987)	(104,153)	178,020
Change in deposits from members	1,152,261	286,473	1,437,980	(915,824)
	8,002	214,672	(70,570)	171,267
Interest received	25,774	73,988	166,788	142,940
Interest paid	(80,173)	(77,753)	(131,385)	(116,809)
Income tax paid	-	-	(300)	-
Net cash from operating activities	(46,397)	210,907	(35,467)	197,398
<b>Cash flows from investing activities</b>				
Change in deposits with regulated financial institutions	127,540	(844)	129,717	(88,907)
Change in reinvestment assets under the CMB and IMPP programs	(124,756)	(197,940)	(272,588)	(355,136)
Change in investment securities	298,229	49,119	324,619	(226,800)
Change in secured loans to members	184,337	310,691	355,931	504,024
Acquisition of property, plant and equipment	(699)	(1,306)	(1,273)	(2,603)
Acquisition of intangible assets	(130)	(317)	(309)	(677)
	484,521	159,403	536,097	(170,099)
<b>Cash flows from financing activities</b>				
Change in debt securities issued	(7,232)	165,139	(24,282)	159,136
Change in securities under repurchase agreements	(51,551)	(518,721)	(47,565)	(247,214)
Dividends paid	(2,760)	(2,369)	(5,178)	(21,038)
Issuance (redemption) of shares	2,250	(4)	4,666	(4)
	(59,293)	(355,955)	(72,359)	(109,120)
Increase (decrease) in cash and cash equivalents	378,831	14,355	428,271	(81,821)
Cash and cash equivalents - beginning of period	170,734	106,387	121,294	202,563
Cash and cash equivalents - end of period	\$ 549,565	\$ 120,742	\$ 549,565	\$ 120,742

See accompanying notes to the interim consolidated financial statements

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**1. Incorporation and governing legislation**

Central 1 Credit Union (Central) 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 and International Financial Reporting Standards (IFRS).

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 previously reported under Canadian Generally Accepted Accounting Principles (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 August 19, 2011.

**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 IFRS, effective January 1, 2011. These accounting policies conform, in all material respects, to IFRS.

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**(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 11.
- 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.

**3. Accounting policies**

The accounting policies applied by Central in these consolidated interim financial statements are the same as those applied by Central in its consolidated interim financial statements as at and for the period ended March 31, 2011.

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*New standards and interpretations not yet adopted*

At June 30, 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 IASB has decided to postpone the mandatory application of IFRS 9 until 2015. 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. 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**

The accounting policies presented in the consolidated interim financial statements for the period ending March 31, 2011 have been applied in preparing the interim consolidated financial statements for the period ended June 30, 2011, the comparative information presented in these interim consolidated financial statements for the period ended June 30, 2010, and the year ended December 31, 2010.

In preparing its IFRS consolidated interim statement of financial position as at June 30, 2010, 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

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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:

<b>Interim consolidated statement of financial position</b>	(Thousands of dollars)	
	<b>As at</b>	
	<b>June 30, 2010</b>	
	Increase (Decrease)	
Cash and cash equivalents	\$	(54)
Deposits with regulated financial institutions		5,183
Non-pledged trading assets		4,710
Investment securities		(447)
Current tax assets		109
Deferred tax assets		52
Other assets		<u>3,675</u>
<b>Total assets</b>	<b>\$</b>	<b><u>13,228</u></b>
Deposits designated as trading	\$	(2,710)
Deposits from members		(10,559)
Provisions		6,787
Other liabilities		<u>5,204</u>
<b>Total liabilities</b>		<u>(1,278)</u>
Retained earnings		-
Reserves		6,134
Non-controlling interest		<u>8,372</u>
<b>Total equity</b>		<u>14,506</u>
	<b>\$</b>	<b><u>13,228</u></b>

  

<b>Interim consolidated statement of profit or loss</b>	(Thousands of dollars)	
	<b>For the three</b>	<b>For the six</b>
	<b>months ended</b>	<b>months ended</b>
	<b>June 30, 2010</b>	<b>June 30, 2010</b>
	Increase (Decrease)	Increase (Decrease)
Interest income	\$ 82	\$ 184
Interest expense	66	103
Change in fair value of financial instruments	49	16
Other income	2,149	4,385
Operating expense	(2,719)	(5,164)
Income tax	<u>(9)</u>	<u>(15)</u>
<b>Total loss</b>	<b><u>(382)</u></b>	<b><u>(491)</u></b>

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2) Measurement changes on adoption of derecognition standards

Prior to 2010, Central periodically transferred mortgages to either Canada Housing Trust (CHT) or Canada Mortgage Housing Corporation (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:

<b>Interim consolidated statement of financial position</b>	(Thousands of dollars)
	<b>As at</b>
	<b>June 30, 2010</b>
	Increase
	(Decrease)
Reinvestment assets under the CMB and IMPP programs	\$ 1,313,879
Non-pledged trading assets	(433,621)
Derivative assets held for risk management	80,326
Loans	(1,352)
Investment securities	(45,685)
Secured loans to members	<u>2,384,309</u>
<b>Total assets</b>	<u><u>\$ 3,297,856</u></u>
Obligations under the CMB and IMPP programs	\$ 3,295,579
Deferred tax liabilities	<u>325</u>
<b>Total liabilities</b>	<u>3,295,904</u>
Retained earnings	2,595
Accumulated other comprehensive income (loss)	<u>(643)</u>
<b>Total equity</b>	<u><u>1,952</u></u>
	<u><u>\$ 3,297,856</u></u>

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	(Thousands of dollars)	
	<b>For the three months ended June 30, 2010</b>	<b>For the six months ended June 30, 2010</b>
	Increase (Decrease)	Increase (Decrease)
<b>Interim consolidated statement of profit or loss</b>		
Interest income	\$ 25,279	\$ 49,378
Interest expense	(29,348)	(58,298)
Gain on disposal of financial instruments	270	270
Change in fair value of financial instruments	15,681	15,638
Income tax	<u>(1,699)</u>	<u>(999)</u>
<b>Total profit</b>	<u>\$ 10,183</u>	<u>\$ 5,989</u>
<b>Interim consolidated statement of comprehensive income</b>		
Change in fair value of available-for-sale assets	<u>(627)</u>	<u>(643)</u>
<b>Total other comprehensive income</b>	<u>\$ (627)</u>	<u>\$ (643)</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</b>	
	<b>June 30, 2010</b>	
	Increase	
	(Decrease)	
Other assets	\$ 5,563	
<b>Total assets</b>	<u>5,563</u>	
Deferred tax liabilities	\$ 796	
<b>Total liabilities</b>	<u>796</u>	
Retained earnings	<u>4,767</u>	
<b>Total equity</b>	<u>4,767</u>	
<b>Total liabilities and equity</b>	<u>\$ 5,563</u>	
	<b>For the three</b>	<b>For the six</b>
	<b>months ended</b>	<b>months ended</b>
	<b>June 30, 2010</b>	<b>June 30, 2010</b>
	Increase	Increase
	(Decrease)	(Decrease)
Operating expenses	\$ (100)	\$ (200)
Income tax	<u>12</u>	<u>28</u>
<b>Total loss</b>	<u>\$ (88)</u>	<u>\$ (172)</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 separated 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</b>	
	<b>June 30, 2010</b>	
Property and equipment	\$	826
Other assets		<u>1,403</u>
<b>Total assets</b>	<b>\$</b>	<b><u>2,229</u></b>
Deferred tax liabilities	\$	<u>318</u>
<b>Total liabilities</b>		<u>318</u>
Retained earnings		<u>1,911</u>
<b>Total equity</b>		<u>1,911</u>
	<b>\$</b>	<b><u>2,229</u></b>
	<b>For the three</b>	<b>For the six</b>
	<b>months ended</b>	<b>months ended</b>
	<b>June 30, 2010</b>	<b>June 30, 2010</b>
<b>Interim consolidated statement of profit or loss</b>	Increase	Increase
	(Decrease)	(Decrease)
Operating expenses	\$	221
Income tax		<u>(32)</u>
<b>Total profit</b>	<b>\$</b>	<b><u>189</u></b>
		<u>178</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</b>	
	<b>June 30, 2010</b>	
	Increase	
	(Decrease)	
Property and equipment	\$ <u>1,350</u>	
<b>Total assets</b>	<u>1,350</u>	
Deferred tax liabilities	\$ (4)	
Other liabilities	<u>1,383</u>	
<b>Total liabilities</b>	<u>1,379</u>	
Retained earnings	<u>(29)</u>	
<b>Total equity</b>	<u>(29)</u>	
Total liabilities and equity	<u>\$ 1,350</u>	
	<b>For the three</b>	<b>For the six</b>
	<b>months ended</b>	<b>months ended</b>
	<b>June 30, 2010</b>	<b>June 30, 2010</b>
	Increase	Increase
	(Decrease)	(Decrease)
Interest expense	\$ (80)	\$ (113)
Operating expenses	86	132
Income tax	<u>(1)</u>	<u>(3)</u>
<b>Total profit</b>	<u>\$ 5</u>	<u>\$ 16</u>
<b>Interim consolidated statement of profit or loss</b>		

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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</b>	
	<b>June 30, 2010</b>	
	Increase	(Decrease)
Property and equipment	\$ 2,176	
Other assets	<u>6,966</u>	
<b>Total assets</b>	<u>\$ 9,142</u>	
Deferred tax liabilities	\$ 1,110	
Other liabilities	<u>1,383</u>	
<b>Total liabilities</b>	<u>2,493</u>	
Retained earnings	<u>6,649</u>	
<b>Total equity</b>	<u>\$ 9,142</u>	
	<b>For the three</b>	<b>For the six</b>
	<b>months ended</b>	<b>months ended</b>
	<b>June 30, 2010</b>	<b>June 30, 2010</b>
	Increase	Increase
	(Decrease)	(Decrease)
Interest expense	\$ (80)	\$ (113)
Operating expenses	207	140
Income tax	<u>(21)</u>	<u>(5)</u>
<b>Total profit</b>	<u>\$ 106</u>	<u>\$ 22</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 June 30, 2010</b>	
	Increase (Decrease)	
Deferred tax assets	\$ (699)	
Other assets	<u>(2,300)</u>	
<b>Total assets</b>	<u>\$ (2,999)</u>	
Deferred tax liabilities	\$ (328)	
Other liabilities	<u>(4,889)</u>	
<b>Total liabilities</b>	<u>(5,217)</u>	
Retained earnings	<u>2,218</u>	
<b>Total equity</b>	<u>\$ (2,999)</u>	
	<b>For the three months ended June 30, 2010</b>	<b>For the six months ended June 30, 2010</b>
	Increase (Decrease)	Increase (Decrease)
Operating expenses	\$ (47)	\$ (94)
Income tax	<u>8</u>	<u>14</u>
<b>Total loss</b>	<u>\$ (39)</u>	<u>\$ (80)</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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4) Reclassification and presentation changes

Adoption of IFRS resulted in changes to financial presentation.

(Thousands of dollars)

<b>Interim consolidated statement of financial position</b>	<b>As at June 30, 2010</b>
	Increase (Decrease)
Pledged trading assets	\$ 282,239
Non-pledged trading assets	4,171,002
Derivative assets held for risk management	59,401
Investment securities	(4,453,241)
Current tax assets	13,280
Intangible assets	3,405
Deferred tax assets	5,088
Investment in affiliates	127,055
Other assets	<u>(208,229)</u>
<b>Total assets</b>	<u>\$ -</u>
Deposits designated as trading	1,986,774
Derivative liabilities held for risk management	90,517
Deposits from members	(1,986,774)
Deferred tax liabilities	1,284
Other liabilities	<u>(91,801)</u>
<b>Total liabilities</b>	<u>-</u>
	<u>\$ -</u>

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The aggregate impact of these changes on the interim consolidated statement of financial position as at June 30, 2010 is as follows:

(Thousands of dollars)

	Canadian GAAP	Transition to IFRS Increase (Decrease)	IFRS
<b>Assets</b>			
Cash and cash equivalents	\$ 120,796	\$ (54)	\$ 120,742
Deposits with regulated financial institutions	143,482	5,131	148,613
Pledged trading assets	-	282,239	282,239
Reinvestment assets under the CMB and IMPP Programs	-	1,313,879	1,313,879
Non-pledged trading assets	-	3,742,091	3,742,091
Derivatives held for risk management	-	139,727	139,727
Loans	1,201,239	(2,529)	1,198,710
Investment securities	8,500,070	(4,491,586)	4,008,484
Secured loans to members	-	2,384,309	2,384,309
Current tax assets	-	12,848	12,848
Property and equipment	15,181	2,176	17,357
Intangible assets	-	3,405	3,405
Deferred tax assets	-	4,610	4,610
Investment in affiliates	-	127,055	127,055
Other	286,640	(199,888)	86,752
<b>Total assets</b>	<b>\$ 10,267,408</b>	<b>\$ 3,323,413</b>	<b>\$ 13,590,821</b>
<b>Liabilities</b>			
Deposits designated as trading	\$ -	\$ 1,984,064	\$ 1,984,064
Derivatives held for risk management	-	90,517	90,517
Debt securities issued	625,597	-	625,597
Deposits from members	8,140,023	(1,997,333)	6,142,690
Obligations under the CMB and IMPP Programs	-	3,295,579	3,295,579
Subordinated liabilities	200,544	-	200,544
Provisions	-	6,787	6,787
Securities under repurchase agreements	499,641	-	499,641
Deferred tax liabilities	-	2,391	2,391
Other	244,525	(90,103)	154,422
<b>Total liabilities</b>	<b>9,710,330</b>	<b>3,291,902</b>	<b>13,002,232</b>
<b>Equity</b>			
Share capital	162,576	-	162,576
Contributed surplus	87,901	-	87,901
Retained earnings	270,670	10,418	281,088
Accumulated other comprehensive income	35,931	6,587	42,518
Reserves	-	6,134	6,134
Total Equity attributable to members of Central 1	557,078	23,139	580,217
Non-controlling interest	-	8,372	8,372
<b>Total equity</b>	<b>557,078</b>	<b>31,511</b>	<b>588,589</b>
	<b>\$ 10,267,408</b>	<b>\$ 3,323,413</b>	<b>\$ 13,590,821</b>

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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 three months ended June 30, 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	\$ 44,974	\$ (2,853)	\$ 42,121
Deposits with regulated financial institutions	254	73	327
Loans	4,932	37	4,969
Secured loans and reinvestment assets	-	28,141	28,141
	<u>50,160</u>	<u>25,398</u>	<u>75,558</u>
<b>Financial expense</b>			
Debt securities issued	2,811	80	2,891
Deposits from members	27,600	(66)	27,534
Obligations under the CMB and IMPP programs	-	29,348	29,348
Subordinated debt	2,048	-	2,048
	<u>32,459</u>	<u>29,362</u>	<u>61,821</u>
Interest margin	17,701	(3,964)	13,737
Gain on disposal of financial instruments	5,008	270	5,278
Change in fair value of financial instruments	(16,694)	15,722	(972)
Net financial income	6,015	12,028	18,043
Provision (recovery) for credit losses	(20)	5	(15)
	<u>6,035</u>	<u>12,023</u>	<u>18,058</u>
Other income	22,745	2,149	24,894
Net financial and other income	<u>28,780</u>	<u>14,172</u>	<u>42,952</u>
<b>Operating expenses</b>			
Salaries and employee benefits	14,853	47	14,900
Premises and equipment	2,289	33	2,322
Other administrative expenses	12,847	2,479	15,326
	<u>29,989</u>	<u>2,559</u>	<u>32,548</u>
Profit before income taxes	(1,209)	11,613	10,404
Income taxes	(2,040)	1,726	(314)
<b>Profit for the period</b>	<u>\$ 831</u>	<u>\$ 9,887</u>	<u>\$ 10,718</u>
<b>Other comprehensive income (net of tax)</b>			
Net unrealized gains (losses) on available-for-sale assets	\$ 12,891	\$ (627)	\$ 12,264
Reclassification of losses (gains) on available for sale assets	(3,804)	-	(3,804)
	<u>9,087</u>	<u>(627)</u>	<u>8,460</u>
<b>Comprehensive income</b>	<u>\$ 9,918</u>	<u>\$ 9,260</u>	<u>\$ 19,178</u>

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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 six months ended June 30, 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	\$ 87,980	\$ (8,465)	\$ 79,515
Deposits with regulated financial institutions	483	112	595
Loans	9,689	74	9,763
Secured loans and reinvestment assets	-	57,915	57,915
	<u>98,152</u>	<u>49,636</u>	<u>147,788</u>
<b>Financial expense</b>			
Debt securities issued	4,258	113	4,371
Deposits from members	54,366	(103)	54,263
Obligations under the CMB and IMPP programs	-	58,298	58,298
Subordinated debt	4,105	-	4,105
	<u>62,729</u>	<u>58,308</u>	<u>121,037</u>
Interest margin	35,423	(8,672)	26,751
Gain on disposal of financial instruments	12,040	270	12,310
Change in fair value of financial instruments	(23,162)	15,654	(7,508)
Net financial income	24,301	7,252	31,553
Provision (recovery) for credit losses	(113)	5	(108)
	24,414	7,247	31,661
Other income	44,195	4,385	48,580
Net financial and other income	<u>68,609</u>	<u>11,632</u>	<u>80,241</u>
<b>Operating expenses</b>			
Salaries and employee benefits	27,997	95	28,092
Premises and equipment	4,463	103	4,566
Other administrative expenses	23,612	4,920	28,532
	<u>56,072</u>	<u>5,118</u>	<u>61,190</u>
Profit before income taxes	12,537	6,514	19,051
Income taxes	(155)	1,016	861
<b>Profit for the period</b>	<u>\$ 12,692</u>	<u>\$ 5,498</u>	<u>\$ 18,190</u>
<b>Other comprehensive income (net of tax)</b>			
Net unrealized gains (losses) on available-for-sale assets	\$ 6,232	\$ (643)	\$ 5,589
Reclassification of losses (gains) on available for sale assets	(9,117)	-	(9,117)
	<u>(2,885)</u>	<u>(643)</u>	<u>(3,528)</u>
<b>Comprehensive income</b>	<u>\$ 9,807</u>	<u>\$ 4,855</u>	<u>\$ 14,662</u>

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The aggregate impact of these changes on equity as at June 30, 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
Canadian GAAP:	\$ 162,576	\$ 87,901	\$ 35,931	\$ -	\$ 270,670	\$ 557,078	\$ -	\$ 557,078
IFRS Adjustments								
Additional subsidiaries				6,134		6,134	8,372	14,506
Adoption of derecognition standard					2,595	2,595	-	2,595
Property and equipment					6,649	6,649	-	6,649
Employee benefits					2,218	2,218	-	2,218
Financial instruments	-	-	6,587	-	(1,044)	5,543	-	5,543
	-	-	6,587	6,134	10,418	23,139	8,372	31,511
	\$ 162,576	\$ 87,901	\$ 42,518	\$ 6,134	\$ 281,088	\$ 580,217	\$ 8,372	\$ 588,589

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*

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 the accounting policy disclosed in Central's consolidated interim financial statements for the period ended March 31, 2011. 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.

*Securitizations*

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.

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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.

*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.

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*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.

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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June 30, 2011	(Millions of dollars)					
	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	\$ 549.5	\$ -	\$ -	\$ 549.5	\$ -	\$ 549.5
Deposits with regulated financial institutions	-	-	-	-	10.6	10.6
Pledged trading assets	-	64.5	-	64.5	-	64.5
Reinvestment assets under the CMB and IMPP programs	-	1,919.1	-	1,919.1	-	1,919.1
Non-pledged trading assets	-	5,222.8	1.0	5,223.8	-	5,223.8
Derivative assets	-	95.3	-	95.3	-	95.3
Loans	-	-	-	-	1,741.2	1,741.2
Investment securities	-	3,597.8	9.2	3,607.0	41.7	3,648.7
Secured loans to members	-	-	1,566.5	1,566.5	-	1,566.5
Current tax assets	-	-	-	-	0.1	0.1
Property and equipment	-	-	-	-	17.1	17.1
Intangible assets	-	-	-	-	3.0	3.0
Deferred tax assets	-	-	-	-	6.2	6.2
Investment in affiliates	-	-	-	-	130.0	130.0
Other	-	3.1	-	3.1	68.4	71.5
<b>Total assets</b>	<u>\$ 549.5</u>	<u>\$ 10,902.6</u>	<u>\$ 1,576.7</u>	<u>\$ 13,028.8</u>	<u>\$ 2,018.3</u>	<u>\$ 15,047.1</u>
<b>Liabilities</b>						
Deposits designated as trading	\$ -	\$ 1,977.8	\$ -	\$ 1,977.8	\$ -	\$ 1,977.8
Derivative liabilities	-	87.9	-	87.9	-	87.9
Debt securities issued	-	-	-	-	596.2	596.2
Deposits from members	-	-	-	-	7,978.7	7,978.7
Obligations under the CMB and IMPP Programs	-	3,271.0	-	3,271.0	-	3,271.0
Subordinated liabilities	-	-	-	-	200.6	200.6
Provisions	-	-	-	-	6.5	6.5
Securities under repurchase agreements	-	-	-	-	114.7	114.7
Deferred tax liabilities	-	-	-	-	3.1	3.1
Other	-	-	-	-	182.0	182.0
<b>Total liabilities</b>	<u>-</u>	<u>5,336.7</u>	<u>-</u>	<u>5,336.7</u>	<u>9,081.8</u>	<u>14,418.5</u>
<b>Net Assets</b>	<u>\$ 549.5</u>	<u>\$ 5,565.9</u>	<u>\$ 1,576.7</u>	<u>\$ 7,692.1</u>	<u>\$(7,063.5)</u>	<u>\$ 628.6</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	-	5,432.8	-	5,432.8	7,642.8	13,075.6
<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 December</u> <u>31, 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 June 30,</u> <u>2011</u>
<b>Assets</b>						
Securities - Trading	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ 1.0
Securities – Available for sale	1.9	0.3	(1.9)	-	-	0.3
Secured loans to members	1,929.9	-	(357.4)	-	(6.0)	1,566.5
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>\$ 0.3</u>	<u>\$ (359.5)</u>	<u>\$ -</u>	<u>\$ (6.0)</u>	<u>\$ 1,576.7</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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amortized cost	<u>\$ 10,632</u>	<u>\$ 22,954</u>	<u>\$ 12,965</u>
Fair value	<u>\$ 10,718</u>	<u>\$ 23,365</u>	<u>\$ 13,202</u>

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Amounts on deposit with regulated financial institutions classified as available-for-sale are as follows:  
(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amortized cost	\$ <u>                  -</u>	\$ <u>      125,532</u>	\$ <u>      127,546</u>
Fair value	\$ <u>                  -</u>	\$ <u>      125,659</u>	\$ <u>      127,600</u>

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

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
	\$ <u>      10,632</u>	\$ <u>      148,613</u>	\$ <u>      140,565</u>

**8. Trading assets**

Trading assets included in the interim consolidated statements of financial position are as follows:  
(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Government & guarantees	\$ <u>      3,294,035</u>	\$ <u>      3,210,878</u>	\$ <u>      3,196,963</u>
Corporate & financial institutions			
AA or greater	<u>      1,920,402</u>	<u>      744,412</u>	<u>      1,125,366</u>
Other	<u>              73,965</u>	<u>              69,040</u>	<u>              91,552</u>
Fair value	\$ <u>      5,288,402</u>	\$ <u>      4,024,330</u>	\$ <u>      4,413,881</u>

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amortized cost	\$ <u>      5,198,478</u>	\$ <u>      3,954,657</u>	\$ <u>      4,354,554</u>
Fair value	\$ <u>      5,288,402</u>	\$ <u>      4,024,330</u>	\$ <u>      4,413,881</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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Trading assets	\$ 64,536	\$ 282,239	\$ 160,747
Amounts included in investment securities	<u>51,753</u>	<u>38,598</u>	<u>15,612</u>
	<u>\$ 116,289</u>	<u>\$ 320,837</u>	<u>\$ 176,359</u>

**9. Derivative assets**

The fair value of derivative assets is as follows:

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Interest rate swaps			
- Derivative contracts used to manage interest rate risk	\$ 20,211	\$ 60,154	\$ 52,628
- Derivative contracts used to manage interest rate risk under the CMB and IMPP Programs (note 12)	<u>72,396</u>	<u>78,566</u>	<u>74,757</u>
	<u>92,607</u>	138,720	127,385
Foreign exchange derivative contracts	<u>2,734</u>	<u>1,007</u>	<u>1,711</u>
	<u>\$ 95,341</u>	<u>\$ 139,727</u>	<u>\$ 129,096</u>

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**10. Loans**

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Due on demand - Credit unions	\$ 13,915	\$ 33,979	\$ 61,476
- Commercial and others	<u>9,686</u>	<u>10,932</u>	<u>5,033</u>
	<u>23,601</u>	<u>44,911</u>	<u>66,509</u>
Term - Credit unions	1,126,036	796,420	895,362
- Commercial and others	160,527	124,421	137,692
- Reverse repurchase agreements	420,772	220,515	-
- Officers and employees	<u>15,782</u>	<u>16,112</u>	<u>16,647</u>
	<u>1,723,117</u>	<u>1,157,468</u>	<u>1,049,701</u>
	1,746,718	1,202,379	1,116,210
Accrued interest	<u>3,866</u>	<u>1,506</u>	<u>2,468</u>
	1,750,584	1,203,885	1,118,678
Allowance for credit losses	<u>(9,293)</u>	<u>(5,175)</u>	<u>(9,498)</u>
	<u>\$ 1,741,291</u>	<u>\$ 1,198,710</u>	<u>\$ 1,109,180</u>

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 1.80% to 4.80%.

Impaired loans are as follows:

	Gross Impaired	Specific Allowance	Collective Allowance	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Credit unions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial and others	<u>11,525</u>	<u>(8,388)</u>	<u>(905)</u>	<u>2,232</u>	<u>3,171</u>	<u>1,152</u>
Total	<u>\$ 11,525</u>	<u>\$ (8,388)</u>	<u>\$ (905)</u>	<u>\$ 2,232</u>	<u>\$ 3,171</u>	<u>\$ 1,152</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:

(Thousands of dollars)

	Specific Allowance	Collective Allowance	<u>Three months ended June 30, 2011</u>	<u>Six months ended June 30, 2011</u>	<u>Three months ended June 30, 2010</u>	<u>Six months ended June 30, 2010</u>	<u>For the year ended December 31, 2010</u>
Balance at beginning of period	\$ 8,354	\$ 800	\$ 9,154	\$ 9,498	\$ 6,387	\$ 6,480	\$ 6,480
Net write-offs during the period	(304)	-	(303)	(635)	(1,197)	(1,197)	(1,387)
Provision (recovery) for credit losses	<u>338</u>	<u>105</u>	<u>442</u>	<u>430</u>	<u>(15)</u>	<u>(108)</u>	<u>4,405</u>
Balance at end of period	<u>\$ 8,388</u>	<u>\$ 905</u>	<u>\$ 9,293</u>	<u>\$ 9,293</u>	<u>\$ 5,175</u>	<u>\$ 5,175</u>	<u>\$ 9,498</u>

**11. Investment securities**

Securities classified as held to maturity are as follows:

(Thousands of dollars)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>December 31, 2010</u>
Amortized cost	\$ <u>9,655</u>	\$ <u>28,660</u>	\$ <u>26,875</u>
Fair value	\$ <u>9,650</u>	\$ <u>28,371</u>	\$ <u>26,801</u>

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

(Thousands of dollars)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>December 31, 2010</u>
Amortized cost	\$ <u>3,609,902</u>	\$ <u>3,939,598</u>	\$ <u>3,914,360</u>
Fair value	\$ <u>3,639,149</u>	\$ <u>3,979,824</u>	\$ <u>3,935,401</u>

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

(Thousands of dollars)

<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
<u>\$ 3,648,804</u>	<u>\$ 4,008,484</u>	<u>\$ 3,962,276</u>

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

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Government & guarantees	\$ 708,348	\$ 1,098,747	\$ 770,464
Corporate & financial institutions AA or greater	2,762,457	2,727,512	3,062,218
Other	<u>177,999</u>	<u>182,225</u>	<u>129,594</u>
	<u>\$ 3,648,804</u>	<u>\$ 4,008,484</u>	<u>\$ 3,962,276</u>

The above table includes \$32.1 million (June 30, 2010 - \$32.1 million; December 31, 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 \$819.3 million (June 30, 2010 - \$290.5 million; December 31, 2010 - \$ 384.3 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 (June 30, 2010 - \$124.8 million; December 31, 2010 - \$nil) to the Bank of Canada under the Term Purchase and Resale Agreement Facility.

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**12. Secured loans to members**

Through its participation in the CMB and IMPP programs as described in the accounting policy disclosed in Central's consolidated interim financial statements for the period ended March 31, 2011. 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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Total initial par amount of MBS pools outstanding at the end of the period	\$ 4,240,559	\$ 4,240,559	\$ 4,240,559
Initial par amount of MBS pools retained by Central	<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>\$ 3,175,300</u>	<u>\$ 3,175,300</u>	<u>\$ 3,175,300</u>

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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Total amount of secured loans issued outstanding at the end of the period	\$ 4,240,559	\$ 4,240,559	\$ 4,240,559
Aggregate principal payments received	<u>(2,702,794)</u>	<u>(1,912,736)</u>	<u>(2,348,650)</u>
Remaining par value of secured loans to members in the Statement of financial position	<u>\$ 1,537,765</u>	<u>\$ 2,327,823</u>	<u>\$ 1,891,909</u>

The components of these balances are as follows:

Remaining par value of secured loans under the CMB and IMPP programs	\$ 964,261	\$ 1,540,676	\$ 1,215,353
Remaining par value of secured loans retained by Central	<u>573,504</u>	<u>787,147</u>	<u>676,556</u>
	<u>\$ 1,537,765</u>	<u>\$ 2,327,823</u>	<u>\$ 1,891,909</u>

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

Amortized cost	<u>\$ 1,546,033</u>	<u>\$ 2,341,582</u>	<u>\$ 1,903,352</u>
Fair value	<u>\$ 1,566,579</u>	<u>\$ 2,384,309</u>	<u>\$ 1,929,850</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 June 30, 2011	As at June 30, 2010	As at December 31, 2010
<i>Change in value of secured loans to members:</i>	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
200 bps parallel increase in interest rates	\$ (10,866)	\$ (31,146)	\$ (19,963)
200 bps parallel decrease in interest rates	\$ 11,356	\$ 32,867	\$ 20,939

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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amount due within one year	\$ 223,577	\$ -	\$ 22,909
Amount due after one year, but within five years	<u>2,919,918</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>
Accrued interest	<u>12,093</u>	<u>13,584</u>	<u>13,220</u>
Amortized cost	<u>\$ 3,155,588</u>	<u>\$ 3,157,079</u>	<u>\$ 3,156,715</u>
Fair value	<u>\$ 3,270,962</u>	<u>\$ 3,295,579</u>	<u>\$ 3,280,112</u>

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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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Government & guarantees	\$ 1,803,217	\$ 1,140,720	\$ 1,402,888
Assets acquired under reverse repurchase agreements	48,061	173,159	162,256
Other	<u>67,879</u>	<u>-</u>	<u>78,842</u>
Fair value	<u>\$ 1,919,157</u>	<u>\$ 1,313,879</u>	<u>\$ 1,643,986</u>
Amortized cost	<u>\$ 1,907,157</u>	<u>\$ 1,299,543</u>	<u>\$ 1,634,868</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).

**13. Deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Deferred tax assets:			
Financial instruments	\$ 1,891	\$ 2,231	\$ 1,324
Securitization transactions	626	-	1,488
Employee future benefits	2,484	2,123	2,371
Other	<u>1,159</u>	<u>256</u>	<u>538</u>
	<u>6,160</u>	<u>4,610</u>	<u>5,721</u>
Deferred tax liabilities:			
Financial instruments	27	59	29
Securitization transactions	-	326	-
Employee future benefits	155	255	152
Property, plant and equipment	1,840	1,751	1,820
Other	<u>1,084</u>	<u>-</u>	<u>137</u>
	<u>3,106</u>	<u>2,391</u>	<u>2,138</u>
	<u>\$ 3,054</u>	<u>\$ 2,219</u>	<u>\$ 3,583</u>

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Changes in deferred tax balances during the six months period ended June 30, 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 June 30,</u> <u>2011</u>
Deferred tax assets:				
Financial instruments	\$ 1,324	\$ 567	\$ -	\$ 1,891
Securitization transactions	1,488	(844)	(18)	626
Employee future benefits	2,371	113	-	2,484
Other	<u>538</u>	<u>621</u>	<u>-</u>	<u>1,159</u>
	<u>5,721</u>	<u>457</u>	<u>(18)</u>	<u>6,160</u>
Deferred tax liabilities:				
Financial instruments	29	(2)	-	27
Employee future benefits	152	3	-	155
Property, plant and equipment	1,820	20	-	1,840
Other	<u>137</u>	<u>952</u>	<u>(5)</u>	<u>1,084</u>
	<u>2,138</u>	<u>973</u>	<u>(5)</u>	<u>3,106</u>
	<u>\$ 3,583</u>	<u>\$ (516)</u>	<u>\$ (13)</u>	<u>\$ 3,054</u>

Changes in deferred tax balances during the six months period ended June 30, 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 June 30,</u> <u>2010</u>
Deferred tax assets:				
Financial instruments	\$ 3,031	\$ (800)	\$ -	\$ 2,231
Securitization transactions	566	(566)	-	-
Employee future benefits	1,936	187	-	2,123
Other	<u>361</u>	<u>(105)</u>	<u>-</u>	<u>256</u>
	<u>5,894</u>	<u>(1,284)</u>	<u>-</u>	<u>4,610</u>
Deferred tax liabilities:				
Financial instruments	1,796	(1,737)	-	59
Securitization transactions	-	433	(107)	326
Employee future benefits	40	215	-	255
Property, plant and equipment	<u>1,748</u>	<u>3</u>	<u>-</u>	<u>1,751</u>
	<u>3,584</u>	<u>(1,086)</u>	<u>(107)</u>	<u>2,391</u>
	<u>\$ 2,310</u>	<u>\$ (198)</u>	<u>\$ 107</u>	<u>\$ 2,219</u>

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**14. Other assets**

	(Thousands of dollars)		
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Assets available for sale designated as trading	\$ 3,101	\$ 6,523	\$ 4,043
Assets available for sale at amortized cost	24,673	53,346	33,268
Investment property	6,567	6,967	6,766
Accounts receivable and other	29,762	10,639	12,163
Prepaid expenses	6,150	7,496	2,394
Pension asset	<u>1,107</u>	<u>1,781</u>	<u>1,082</u>
	<u>\$ 71,360</u>	<u>\$ 86,752</u>	<u>\$ 59,716</u>

At period-end, the amortized cost of the assets available for sale designated as trading was **\$3,098** thousand (June 30, 2010 - \$6,558 thousand; December 31, 2010 - \$3,978 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.

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

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**15. Deposits designated as trading**

Deposits designated as trading are as follows:

(Thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amortized cost	<u>\$ 1,965,697</u>	<u>\$ 1,970,274</u>	<u>\$ 2,064,833</u>
Fair value	<u>\$ 1,977,832</u>	<u>\$ 1,984,064</u>	<u>\$ 2,072,592</u>

The contractual maturity dates of these liabilities are as follows:

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amount			
- due within three months	\$ 36,713	\$ 308,413	\$ 327,092
- due after three months, but within one year	803,227	779,533	886,945
- due after one year, but within five years	1,084,850	865,398	836,130
- due after five years	<u>22,305</u>	-	-
	<u>1,947,095</u>	<u>1,953,344</u>	<u>2,050,167</u>
Accrued interest	<u>18,602</u>	<u>16,930</u>	<u>14,666</u>
Amortized cost	<u>\$ 1,965,697</u>	<u>\$ 1,970,274</u>	<u>\$ 2,064,833</u>

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**16. Derivative liabilities**

The fair value of derivative liabilities is as follows:

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Interest rate swaps			
- Derivative contracts used to manage interest rate risk	\$ 85,138	\$ 89,712	\$ 78,893
- Derivative contracts used to manage interest rate risk under the CMB and IMPP Programs (Note 12)	<u>1,305</u>	-	-
	<b>86,443</b>	89,712	78,893
Foreign exchange derivative contracts	<u>1,407</u>	805	1,230
	<u><b>\$ 87,850</b></u>	<u>\$ 90,517</u>	<u>\$ 80,123</u>

**17. Debt securities issued**

	(Thousands of dollars)		
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Notes			
- due within three months	\$ 345,313	\$ 399,816	\$ 394,624
- due after three months and within one year	24,895	-	-
- due after one year and less than five years	<u>224,488</u>	<u>224,265</u>	<u>224,354</u>
	<b>594,696</b>	624,081	618,978
Accrued interest	<u>1,516</u>	<u>1,516</u>	<u>1,546</u>
	<u><b>\$ 596,212</b></u>	<u>\$ 625,597</u>	<u>\$ 620,524</u>

Central has established **\$265.1** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits.

At June 30, 2011, no amounts were drawn against these facilities. (June 30, 2010 - \$0.0 million; December 31, 2010 - \$0.0 million).

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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 June 30, 2011, **\$370.7** million was borrowed under the short-term commercial paper facility (June 30, 2010 - \$400.0 million; December 31, 2010 - \$395.0 million) and **\$225.0** million was borrowed under the medium-term note facility (June 30, 2010 - \$225.0 million; December 31, 2010 - \$225.0 million).

**18. Deposits from members**

Deposits classified as other liabilities are as follows:

	(Thousands of dollars)		
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amount			
- Due on demand	\$ 1,251,795	\$ 976,535	\$ 946,830
- Due within three months	2,753,786	1,600,423	1,903,650
- Due after three months and within one year	1,931,070	1,611,742	1,783,578
- Due after one year and less than five years	1,996,625	1,917,487	1,862,171
- Due after five years and less than six years	<u>2,433</u>	<u>300</u>	<u>1,500</u>
	<b>7,935,709</b>	6,106,487	6,497,729
Accrued interest	<u>43,059</u>	<u>36,203</u>	<u>38,185</u>
	<b><u>\$ 7,978,768</u></b>	<b><u>\$ 6,142,690</u></b>	<b><u>\$ 6,535,914</u></b>

**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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Amounts under the Bank of Canada's purchase and Resale Agreements program	\$ -	\$ 124,662	\$ -
Amounts under the CMB and IMPP programs	49,627	173,111	162,358
Other	<u>65,094</u>	<u>201,868</u>	<u>-</u>
	<u>\$ 114,721</u>	<u>\$ 499,641</u>	<u>\$ 162,358</u>

**21. Other liabilities**

	(Thousands of dollars)		
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Settlements in-transit	\$ 133,566	\$ 109,514	\$ 70,363
Post-employment benefits	17,680	14,848	16,879
Short-term employee benefits	3,213	3,221	5,114
Dividends payable	2,414	2,388	2,418
Trade amounts and other	19,009	18,019	17,963
Unearned insurance premiums	4,833	5,049	878
Finance leases	<u>1,320</u>	<u>1,383</u>	<u>1,238</u>
	<u>\$ 182,035</u>	<u>\$ 154,422</u>	<u>\$ 114,853</u>

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**22. Share capital**

Central may issue an unlimited number of class “A”, “B”, “C”, “D” 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”, “C” and “D” 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.

The numbers of shares issued are as follows:

	(Thousands of shares)		
	<u>For the six</u> <u>months ended</u> <u>June 30, 2011</u>	<u>For the six</u> <u>months ended</u> <u>June 30, 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	4,793	-	4,651
Redeemed during the period	<u>(127)</u>	<u>(4)</u>	<u>(2,248)</u>
Balance at end of period	<u><u>169,605</u></u>	<u><u>162,532</u></u>	<u><u>164,939</u></u>
Class B – co-operatives			
Balance at beginning and end of period	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>5</u></u>
Class C – other			
Balance at beginning and end of period	<u><u>7</u></u>	<u><u>7</u></u>	<u><u>7</u></u>
Class E – credit unions			
Balance at beginning of year	3,163	3,163	3,163
Redeemed during the period	<u>(4)</u>	-	-
Balance at end of period	<u><u>3,159</u></u>	<u><u>3,163</u></u>	<u><u>3,163</u></u>

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The amounts outstanding are as follows:

	(Thousands of dollars)		
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Outstanding \$1 par value shares			
Class A – credit unions	\$ 169,605	\$ 162,532	\$ 164,939
Class B – cooperatives	5	5	5
Class C – other	7	7	7
Class D – credit unions	-	-	-
Outstanding \$.01 par value shares			
Class E – credit unions	<u>32</u>	<u>32</u>	<u>32</u>
	<u>\$ 169,649</u>	<u>\$ 162,576</u>	<u>\$ 164,983</u>

The dividend amounts are as follows:

	(Thousands of dollars)	
	<u>For the six</u> <u>months ended</u> <u>June 30, 2011</u>	<u>For the six</u> <u>months ended</u> <u>June 30, 2010</u>
Dividend payable, balance at beginning of period	\$ 2,418	\$ 18,669
Declared during the period	4,795	4,757
Paid during the period	<u>\$ (4,799)</u>	<u>\$ (21,038)</u>
Dividend payable, balance at end of period	<u>\$ 2,414</u>	<u>\$ 2,388</u>

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

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

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net gain on disposal of trading assets	\$ 9,387	\$ 5,478	\$ 19,452	\$ 5,640
Net gain on disposal of investment securities	4,274	3,734	7,545	10,639
Net loss on disposal of derivatives	(104)	(3,934)	(1,315)	(3,969)
Deposits from members	<u>(1,081)</u>	<u>-</u>	<u>(1,081)</u>	<u>-</u>
	<u>\$ 12,476</u>	<u>\$ 5,278</u>	<u>\$ 24,601</u>	<u>\$ 12,310</u>

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

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Trading Assets	\$ 73,401	\$ 65,478	\$ 30,535	\$ 66,688
Activities under the CMB and IMPP programs				
Reinvestment assets	4,301	7,056	2,108	3,693
Derivative assets and liabilities	6,019	19,203	(3,779)	13,394
Secured loans to members	(1,127)	1,627	(5,952)	(16,854)
Obligations to CHT and CMHC	(10,098)	(31,641)	8,023	(12,114)
Derivative assets and liabilities	(75,594)	(60,785)	(34,242)	(67,082)
Trading deposits	<u>(6,841)</u>	<u>(1,910)</u>	<u>(4,376)</u>	<u>4,767</u>
	<u>\$ (9,939)</u>	<u>\$ (972)</u>	<u>\$ (7,683)</u>	<u>\$ (7,508)</u>

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**25. Other income**

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Membership dues	\$ 1,923	\$ 1,812	\$ 3,765	\$ 3,564
Provincial advertising assessment	222	56	640	692
Equity interest in affiliates	(27)	1,315	422	2,045
Insurance assessments	2,563	2,610	5,131	5,322
Technology and payment services				
- Processing	10,073	9,597	19,817	18,576
- Direct banking	5,555	4,220	9,377	8,257
- Other technology services	98	590	212	1,156
Wholesale financial services				
- Treasury services	504	727	1,372	1,149
- Funding services	975	778	1,897	1,698
- Employee benefits & retirement services	240	234	491	447
- Registered plans	572	544	1,121	1,165
Trade and other services				
- Marketing products & programs	367	365	706	803
- Operations manual	391	371	735	692
- Property rents	250	140	470	346
- Research	39	28	354	297
- Risk management	725	535	1,484	1,055
- Other	<u>808</u>	<u>972</u>	<u>1,155</u>	<u>1,316</u>
	<u>\$ 25,278</u>	<u>\$ 24,894</u>	<u>\$ 49,149</u>	<u>\$ 48,580</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 three months ended		For the six months ended	
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Provision for income taxes in Statements of Profit or Loss	\$ 1,557	\$ (314)	\$ 4,390	\$ 861
Income tax benefit related to dividends accrued and share redemptions	<u>(393)</u>	<u>(342)</u>	<u>(727)</u>	<u>(679)</u>
Total	<u>\$ 1,164</u>	<u>\$ (656)</u>	<u>\$ 3,663</u>	<u>\$ 182</u>

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

Current income taxes	\$ 2,801	\$ (90)	\$ 3,874	\$ 663
Deferred income taxes	<u>(1,244)</u>	<u>(224)</u>	<u>516</u>	<u>198</u>
Total	<u>\$ 1,557</u>	<u>\$ (314)</u>	<u>\$ 4,390</u>	<u>\$ 861</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		For the six months ended	
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
	%	%	%	%
Combined federal and provincial statutory income tax rates	<b>30.5</b>	30.5	<b>30.5</b>	30.5
Reduction available to credit unions	<b>(17.0)</b>	(17.0)	<b>(17.0)</b>	(17.0)
Impact of completion of tax election as described below	-	(16.7)	-	(9.1)
Other	<u>0.4</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>
Total	<u><b>13.9</b></u>	<u>(3.0)</u>	<u><b>13.6</b></u>	<u>4.6</u>

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On July 1, 2008 Central acquired substantially all of the assets of Credit Union Central of Ontario Limited (CUCO). The terms of the Combination Agreement (the Agreement) between Central and CUCO provided for the transfer of certain of these assets to Central in 2009 and the Agreement further required the parties to elect to transfer those assets at their adjusted cost base pursuant to subsection 85(1) of the Income Tax Act (ITA).

As such, Central acquired these assets on a tax-deferred basis during its 2009 fiscal year and recognized a future tax liability of approximately \$1.7 million. During the three months ended June 30, 2010, Central and CUCO determined that the election should more appropriately have reflected the fair value of the transferred assets. Accordingly, the parties agreed to amend the Agreement and the related tax election. Central and CUCO have jointly filed a revised election under subsection 85(1) of the ITA to reflect the transfer of these assets at their agreed value with the result that Central reverse the related future tax liability and record a credit to income tax expense of \$1.7 million during the second quarter of its 2010 fiscal year.

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

(Contractual amounts in thousands of dollars)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Standby letters of credit	\$ 134,054	\$ 103,817	\$ 124,747
Commitments to extend credit	\$ 3,185,683	\$ 3,716,935	\$ 3,304,025

Central is involved in legal actions 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.

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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	\$ 549.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 549.6
Deposits with regulated financial institutions	-	2.0	4.9	3.6	-	0.1	10.6
Derivative assets	-	-	-	-	-	95.3	95.3
Investment securities	-	1,517.8	45.6	5,221.4	1,940.5	211.9	8,937.2
Reinvestment assets under the CMB and IMPP programs	-	199.4	408.4	1,296.0	-	15.3	1,919.1
Loans	231.2	896.5	285.9	315.3	17.7	(5.3)	1,741.3
Secured loans to members	-	135.9	394.9	1,006.9	-	28.8	1,566.5
Other assets	-	10.1	16.5	1.0	-	199.9	227.5
<b>Total</b>	<b>780.8</b>	<b>2,761.7</b>	<b>1,156.2</b>	<b>7,844.2</b>	<b>1,958.2</b>	<b>546.0</b>	<b>15,047.1</b>
<b>Liabilities</b>							
Deposits from members	1,251.8	2,790.5	2,734.3	3,081.5	24.7	73.8	9,956.6
Derivative liabilities	-	-	-	-	-	87.9	87.9
Debt securities issued	-	345.3	24.9	224.5	-	1.5	596.2
Obligations under the CMB and IMPP programs	-	19.0	204.6	2,919.9	-	127.5	3,271.0
Subordinated liabilities	-	-	50.1	149.1	-	1.4	200.6
Securities under repurchase agreements	-	114.7	-	-	-	-	114.7
Other liabilities	-	-	-	-	-	191.6	191.6
Equity	-	-	-	-	-	628.5	628.5
<b>Total</b>	<b>1,251.8</b>	<b>3,269.5</b>	<b>3,013.9</b>	<b>6,375.0</b>	<b>24.7</b>	<b>1,112.2</b>	<b>15,047.1</b>
On Balance Sheet Gap	(471.0)	(507.8)	(1,857.7)	1,469.2	1,933.5	(566.2)	-
Off Balance Sheet Gap	-	584.8	1,412.4	(161.2)	(1,836.0)	-	-
<b>Total Gap – June 30, 2011</b>	<b>(471.0)</b>	<b>(77.0)</b>	<b>(445.3)</b>	<b>1,308.0</b>	<b>97.5</b>	<b>(566.2)</b>	<b>-</b>
<b>Total Gap – December 31, 2010</b>	<b>(703.7)</b>	<b>371.4</b>	<b>48.4</b>	<b>530.7</b>	<b>144.7</b>	<b>(391.5)</b>	<b>-</b>

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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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 549.56	\$ 120.74	\$ 549.56	\$ 120.74	\$ -	\$ -
Deposits with regulated financial institutions	10.72	149.02	10.63	148.61	0.09	0.41
Investment securities	8,937.20	8,032.53	8,937.21	8,032.82	(0.01)	(0.29)
Reinvestment assets under the CMB and IMPP programs	1,919.16	1,313.88	1,919.16	1,313.88	-	-
Derivative assets	95.34	139.73	95.34	139.73	-	-
Loans	1,746.43	1,198.31	1,741.29	1,198.71	5.14	(0.40)
Secured loans to members	1,566.58	2,384.31	1,566.58	2,384.31	-	-
Other assets	28.02	60.73	27.78	59.87	0.24	0.86
<b>Liabilities</b>						
Deposits designated as trading	1,977.83	1,984.06	1,977.83	1,984.06	-	-
Derivative liabilities	87.85	90.52	87.85	90.52	-	-
Debt securities issued	596.21	625.60	596.21	625.60	-	-
Deposits from members	8,009.64	6,178.82	7,978.77	6,142.69	(30.87)	(36.13)
Obligations under the CMB and the IMPP programs	3,270.96	3,295.58	3,270.96	3,295.58	-	-
Subordinated liabilities	207.43	204.24	200.57	200.54	(6.86)	(3.70)
Securities under repurchase agreements	114.72	499.61	114.72	499.64	-	0.03
Other liabilities	133.57	109.52	133.57	109.52	-	-
<b>Total</b>					<u>\$ (32.27)</u>	<u>\$ (39.22)</u>

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

**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 period 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:

	(Thousands of dollars)	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Mortgage loans outstanding at end of period	\$ 1,270	\$ 1,332
Maximum mortgage loans outstanding during the period	\$ 1,284	\$ 1,346

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>June 30,</u> <u>2011</u>	<u>Period ended</u> <u>June 30,</u> <u>2010</u>
Salaries and short-term employee benefits	\$ 2,505	\$ 2,513
Post-employment benefits	<u>143</u>	<u>212</u>
	<u>\$ 2,648</u>	<u>\$ 2,725</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 \$144 thousand (period ended June 30, 2010 - \$193 thousand)

*Significant Subsidiaries*

(% ownership of common shares outstanding)

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Central 1 Trust Company	100%	-	-
Central Risk and Insurance Management Services Inc.	100%	100%	100%
CUPP Services Ltd.	100%	100%	100%
Stabilization Fund Corporation	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>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Credential Financial Inc.	40%	40%	40%
Credit Union Central of Canada (CUCC)	51%	50%	50%
CUMIS Group Limited	27%	27%	27%

**32. Subsequent Events**

Effective July 6, 2011 Central and the credit union centrals of Alberta, Manitoba and Saskatchewan (the Prairie Centrals) completed the transition of Group Clearing for credit unions across the country from Credit Union Central of Canada (CUCC) to a joint venture.

Under the terms of the agreement, Central took on the role of Group Clearer and now acts as the credit union system's financial institution connection to the Canadian Payments Association.

As a result of this transition, Central will recognize the Group Clearer assets and liabilities on its statement of financial position which had previously been recognized on CUCC's statement of financial position. In order to capitalize the anticipated increase in regulatory borrowings, Central issued subordinated debt with total par value of \$18.0 million to the Prairie Centrals.