



## **Third Quarter Report 2008**

### **REPORT TO MEMBERS**

#### **CENTRAL 1 REPORTS CONSOLIDATED RESULTS FOR INITIAL QUARTER OF POST-MERGER OPERATIONS**

Effective June 30, 2008, Credit Union Central of British Columbia changed its name to Central 1 Credit Union (Central). On July 1, 2008, Central purchased substantially all of the assets and assumed substantially all of the liabilities of Credit Union Central of Ontario Limited (CUCO). As of that date, Central manages the liquidity reserves of member credit unions in both British Columbia and Ontario. The results of CUCO's operations have been included in the Interim Consolidated Financial Statements since that date.

Third-quarter highlights compared to the same period last year:

- Central's assets of \$7.6 billion, up 46.2% from \$5.2 billion
- Central's net income of \$(1.27) million, compared to \$8.95 million
- Central's return on equity of (1.25)%, compared to 13.01%
- Central's expanded access to liquidity through new facilities offered by the Bank of Canada and Canada Mortgage and Housing Corporation.
- B.C. system<sup>(1)</sup> net operating income<sup>(2)</sup> of \$86.0 million, versus \$81.3 million
- B.C. system assets of \$43.4 billion, up 4.0% from \$41.7 billion
- Ontario system<sup>(3)</sup> net operating income of \$31.6 million, versus \$33.6 million
- Ontario system assets of \$19.9 billion, up 3.4% from \$19.2 billion.

While the current financial markets continued to be challenging, Central's capital and liquidity remained strong and Central is well-positioned for growth. Results for this quarter, however, were affected by the volatile and difficult environment as the global credit crisis intensified. With the continued deterioration in credit markets, Central recorded a reduction in the fair value of financial instruments of \$15.99 million. This included a write-down of Central's investment in debt securities of Lehman Brothers Holdings Inc., with a par value of \$10 million, to \$1.5 million, following that firm's filing for bankruptcy protection during the

quarter, and a \$3.88 million further reduction in the value of third-party asset-backed commercial paper (ABCP).

This had a direct effect on Central's earnings, with net income falling to \$(1.27) million compared to \$8.95 million for the same period last year. However, Central's financial position remained strong, with significant growth in revenues during the quarter from increases in interest margin and other income of \$6.10 million and \$8.08 million respectively, and despite the asset write-downs, Central remained relatively unscathed by the global crisis. Net income for the nine months ended September 30, 2008, was \$11.49 million, down from \$19.72 million for the same period last year. Assets increased by 46.2%, reaching \$7.6 billion compared to \$5.2 billion as at September 30, 2007, largely reflecting the combination with CUCO.

British Columbia credit unions, collectively referred to as the B.C. system, continued to perform well in an environment defined by a slowing provincial economy, low unemployment and buyers' markets in residential housing. The B.C. system earned \$86.0 million before taxes, dividends and patronage refunds in the third quarter of 2008, up 5.7% from the \$81.3 million earned during the same period in 2007. Combined assets for the B.C. system in the same period rose 4.0%, year-over-year, to reach \$43.4 billion at quarter-end.

Demand for loans slowed, as total B.C. system net loans increased by 3.8% year-over-year to reach \$37.6 billion. Commercial and personal loans secured by real estate grew by 12.2% and 1.4%, year-over-year, respectively. B.C. system loan delinquencies over 90 days rose to 0.33% of total loans compared to 0.23% a year ago, but remained low in comparison to historical levels.

Central's member credit unions in Ontario, collectively referred to as the Ontario system, performed well in a provincial economy nearing recession, with stable employment and weakening residential housing markets. The Ontario system earned \$31.6 million before taxes, dividends and patronage refunds in the third quarter, down 6.2% from the \$33.6 million earned during the same period in 2007. Combined assets for the Ontario system in the same period rose 3.4%, year-over-year, to reach \$19.9 billion at quarter-end.

Demand for loans slowed, as total Ontario system net loans increased by 2.5% year-over-year to reach \$16.6 billion. Commercial and personal loans secured by real estate grew by 9.7% and 1.0%, year-over-year, respectively. Ontario system loan delinquencies over 90 days rose to 0.57% of total loans compared to 0.42% a year ago, but remained low in comparison to historical levels.

- (1) These documents include statements about the credit union system in British Columbia. System financial information has been provided by the Financial Institutions Commission of British Columbia (FICOM), which makes available reports on information provided by British Columbia credit unions. Central has no means of verifying the accuracy of information provided by credit unions to FICOM or FICOM's subsequent compilation of that information. Reference to system information should be interpreted in this context.
- (2) System net operating income is equivalent to income from recurring operations and does not include extraordinary items, patronage dividends or income taxes.
- (3) These documents include statements about Central's member credit unions in Ontario, collectively referred to as the Ontario credit union system. 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 September 30, 2008**

This portion of the Report to Members updates Central's Management's Discussion and Analysis for the year ended December 31, 2007, and provides a discussion and analysis of Central's financial condition and results of operations for the nine-month period ended September 30, 2008, compared to the corresponding period in the preceding fiscal year. Additional information on Central, including its Annual Information Form, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### **Forward-Looking Statements**

There are numerous factors, many beyond Central's control, which could cause results to differ from expectations. These factors, which include industry factors, Central and system specific factors, economic factors and financial market conditions, are described in Central's Management's Discussion and Analysis for the year ended December 31, 2007. Since then, Central has combined with CUCO and there have been considerable changes in economic factors and financial market conditions, as discussed later in this report. Central's performance is also subject to a number of risks, including credit, liquidity, market and operational risk. Integration risks are relatively low and should not represent a major disruption to Central's operations, and although Central has acquired some commercial and syndicated loans from CUCO, there has not been a substantial change in Central's risk profile or in its management of risk as described in Central's Management's Discussion and Analysis for the year ended December 31, 2007.

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

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

With the continued deterioration in credit markets, Central recorded a reduction in the fair value of financial instruments of \$15.99 million. This included a write-down of Central's investment in debt securities of Lehman Brothers Holdings Inc., with a par value of \$10 million, to \$1.5 million, following that firm's filing for bankruptcy protection during the quarter, and a \$3.88 million further reduction in the value of third-party asset-backed commercial paper (ABCP).

As a result, Central recorded a loss in the third quarter of 2008, with net income dropping to \$(1.27) million, for a loss of 0.81 cents per share, compared to a gain of \$8.95 million or 7.90 cents per share last year, when Central realized a pre-tax gain of \$4.33 million on the sale of rental property. With year-to-date net income at \$11.49 million, earnings per share were 10.44 cents compared to 17.39 cents in 2007.

Interest margin of \$13.75 million increased 65.4% from the \$7.65 million posted in the third quarter of 2007 and year-to-date interest margin was \$31.87 million, compared with last year's \$22.24 million. The increases in interest margin are attributable to both the combination with CUCO and higher spreads on securities.

Net financial income of \$1.20 million was down from the \$8.41 million posted in the third quarter of 2007 and year-to-date net financial income was \$21.10 million, down from the record \$25.01 million posted last year. The decrease in net financial income is a result of the decline in the fair value of financial instruments of \$15.99 million during the third quarter and \$24.59 million for the year-to-date, as a result of write-downs related to the global credit crisis. Except for the \$8.5 million write-down on Central's \$10 million investment in debt securities issued by Lehman Brothers Holdings Inc., it is anticipated that there will be a reversal of this impact over time as markets recover, spreads move to more normal levels and the impacted debt reaches maturity.

Other income of \$20.98 million for the quarter was 62.6% higher than last year's \$12.90 million, with \$6.28 million of the increase attributable to Ontario operations previously carried out by CUCO. Quarterly operating expenses were \$23.48 million, compared to \$14.38 million incurred last year, with \$7.78 million of that attributable to Ontario operations.

Central's financial condition remained sound despite losses posted in the third quarter and was comparable to that of September 30, 2007. Capital ratios remained strong. At the quarter-end, Central's risk-weighted capital ratio was 20.9% and its borrowing multiple was 16.9:1.

Liquidity at Central and in the B.C. and Ontario systems remained strong. With the economic slowdown in Canada, credit union lending activity has slowed, reducing the demand on Central for liquidity.

Over the last 12 months, Central and its member credit unions have taken steps to improve system liquidity in the face of the current state of financial markets, including expanding their access to the Canada Mortgage Bond program and adjusting lending activities to more closely match funding capacity.

Central has also broadened its access to liquidity through various facilities introduced recently by the Bank of Canada and Canada Mortgage and Housing Corporation (CMHC) to inject liquidity into the financial markets. These consist of Purchase and Resale Agreements (PRA) offered through the Bank of Canada, purchase of Insured Mortgage

Pools by CMHC through a competitive auction process, and a Canadian Lenders Assurance Facility administered by the Bank of Canada. Central has availed itself of the CMHC and PRA facilities, but does not anticipate that its liquidity requirements will necessitate use of the Canadian Lenders Assurance Facility.

### *B.C. System*

B.C. system net operating income for the quarter was \$86.0 million, compared to \$81.3 million for the third quarter of 2007. Non-financial income rose by 5.1% from the same period last year, and non-financial expense increased 7.1%. B.C. system financial margin improved by 7.2% year-over-year, despite increased funding costs in the capital markets. For the nine months ended September 30, 2008, B.C. system net operating income increased by 3.6% to \$228.2 million compared to \$220.2 million last year.

The B.C. system's regulatory risk-weighted capital was 12.7%. Credit quality remained high in the B.C. system's loan portfolios and system provisions for credit losses as a percentage of average loans were consistent with prior periods.

Overall liquidity within the B.C. system, including that held by Central, continued to improve, reaching 10.1% of assets as of September 30, 2008, compared to 9.5% a year earlier. Deposits with credit unions grew year-over-year by a healthy 6.8%, more than matching loan growth of 3.8%. Holdings of liquid assets increased by 6.7% year-over-year, while borrowings from Central and other lenders decreased by 24.5%.

On October 22, 2008, the provincial government announced its intention to provide unlimited deposit insurance protection on deposits with British Columbia's credit unions, effective immediately. This will require the approval of British Columbia's Legislative Assembly.

### *Ontario System*

Ontario system net operating income for the quarter was \$31.6 million, compared to \$33.6 million for the third quarter of 2007. Non-financial income rose by 14.5% from the same period last year, and non-financial expense decreased by 3.1%. Ontario system financial margin decreased by 10.3% year-over-year, due to increased deposit rates and funding costs. For the nine months ended September 30, 2008, Ontario system net operating income decreased by 7.6% to \$87.9 million compared to \$95.1 million last year.

The Ontario system's regulatory risk-weighted capital was 12.4%. Credit quality remained high in the Ontario system's loan portfolios and system provisions for credit losses as a percentage of average loans were consistent with prior periods.

Overall liquidity within the Ontario system, including that held by Central, was 12.7% of assets as of September 30, 2008, compared to 12.8% a year ago. Deposits with Ontario system credit unions grew year-over-year by 3.7%, more than matching loan growth of

2.5%. Holdings of liquid assets increased by 7.4% year-over-year and borrowings from Central and other lenders decreased by 0.8%.

	3 Months or Period Ended		
	30-Sep-08	30-Sep-07	Difference
Net Financial Income	1.20	8.41	(7.21)
Net Financial and Other Income	21.88	21.31	0.57
Net Income	(1.27)	8.95	(10.22)
Earnings per share from continuing operations			
Basic	(0.81)	4.62	(5.43)
Fully Diluted	(0.81)	4.62	(5.43)
Earnings per share			
Basic	(0.81)	7.90	(8.71)
Fully Diluted	(0.81)	7.90	(8.71)
Return on			
Average Assets	-0.06%	0.69%	-0.75%
Average Equity	-1.25%	13.01%	-14.26%
Balance Sheet Data			
Total Assets	7.62	5.18	2.46
Average Assets	7.83	5.16	2.67
Long Term Financial Liabilities	2.19	1.72	0.47
Regulatory Information			
Tier 1 Capital Ratio %	18.6%	20.4%	-1.8%
Total Capital Ratio %	20.9%	24.0%	-3.1%
Borrowing multiple (times)	16.9	14.9	2.0
Share Information			
Class A	157,600	113,345	44,255
Class B	3	3	0
Class C	7	5	2
Dividends per share (Classes A, B & C)	1.28	2.48	-1.2
Class E	2,832	0	2,832

## **Total Revenues**

### Net Financial Income

Global financial markets were under extreme stress during the quarter. Several financial institutions in the United States went into receivership, others entered into hastily arranged mergers with stronger counterparts and European governments gave direct support to key financial institutions. Central banks coordinated rate cuts and also introduced extraordinary measures to improve liquidity in financial markets. Despite these efforts, liquidity pressures in the general financial markets remain severe. As a result, spreads over government debt on all fixed-income instruments have widened considerably. In Canada, even spreads on debt guaranteed by the federal or by provincial governments have increased beyond anything previously experienced, despite the probability of default on this type of debt being virtually nil.

In its investment portfolio, Central holds debt issued by provincial governments, senior deposit notes issued by major Canadian financial institutions and some highly rated debt issued by corporations. The unprecedented increase in spreads on this debt has, despite lower yields on Government of Canada debt, resulted in some of this debt having a mark-to-market value of less than its book value. Consequently, Central experienced an adverse impact from changes in the fair market value of financial instruments included in net financial income and other comprehensive income, in the amounts of \$15.99 million and \$8.39 million before tax, respectively, for the quarter. Except for the \$8.5 million write-down on Central's \$10 million investment in debt securities issued by Lehman Brothers Holdings Inc., it is anticipated that there will be a reversal of this impact over time as markets recover, spreads move to more normal levels and the impacted debt reaches maturity.

Credit union statutory liquidity deposits with Central are also marked to market. However, for valuation purposes, these deposits continued to be marked to market using a constant spread relative to interest rate swap yields. The spread between the interest rate swaps and Government of Canada bonds was not adversely affected by the liquidity crisis. Hence, the value of these deposits increased in tandem with falling Government of Canada yields and thus did not provide any relief from the negative financial impact of higher spreads on debt instruments.

Central earned net financial income of \$1.20 million for the quarter, compared with \$8.41 million for the same period last year. Interest margin, at \$13.75 million, improved from last year's \$7.65 million. The increase in interest margin is attributable to the balance sheet growth of \$2.46 billion during the quarter resulting from the combination with CUCO. Also, as a percentage of average assets, interest margin increased to 69% from 59%, year over year. Gains on disposal of financial instruments were \$3.35 million, up from \$2.24 million for the third quarter of 2007. The majority of these gains resulted from Central's role in the securitization of system assets.

Offsetting these gains were mark-to-market losses on financial instruments. These losses, which totalled \$15.99 million compared to a loss of \$1.48 million last year, principally resulted from the impact of markedly higher credit spreads and, except for the \$8.5 million write-down on Lehman Brothers Holdings Inc. debt securities, do not represent any intrinsic impairment of the underlying financial instruments.

### Other Income

Central's other income for the quarter increased by 62.6% to \$20.98 million from last year's \$12.90 million; the increase includes \$6.80 million attributable to Ontario operations. Income from payments processing and Internet banking increased as Central achieved higher volumes. Management anticipates that this trend will continue as Central continues to extend these lines of business to entities outside the system. Income from Funding Services also increased as Central continued to expand its role in administering and facilitating system securitization activities.

### Operating Expenses

Operating expenses increased to \$23.48 million for the quarter from \$14.38 million last year. The increase included \$7.78 million attributable to Ontario operations. Included in these expenses are salary costs, which increased to \$11.04 million from \$7.40 million, of which \$3.08 million reflects the addition of Ontario operations. The remainder largely represents higher levels of staffing to support Central's continued expansion of services to entities other than its member credit unions.

One-time costs associated with the successful combination with CUCO totalled \$2.44 million for the nine months ended September 30, 2008, compared to \$1.54 million for the same period last year.

### Income Taxes

Central received an income tax recovery of \$0.34 million in the quarter, compared to income tax expense of \$1.69 million in the same period last year.

## **Balance Sheet**

### Cash and Securities and Liquidity Management

Central's assets increased to \$7.6 billion from \$5.2 billion as at September 30, 2007. Over the last 12 months, loans to credit unions have decreased as Central and the system have collectively sought to increase system liquidity in the face of uncertain capital market conditions. As a result, at \$5.0 billion, cash and securities represent over 66% of Central's assets compared to 56% last year. Central has not drawn down any of its operating lines with other financial institutions and has sufficient excess liquid securities, together with access to other credit facilities, to meet further loan advances to credit

unions. As noted earlier, Central has broadened its access to liquidity through various facilities introduced recently by the Bank of Canada and CMHC.

### Loans and Off-Balance Sheet Arrangements

Loans, which are almost entirely secured loans to member credit unions, increased to \$2.2 billion from \$1.8 billion last year, when Central served only B.C. credit unions. The increase reflects the addition to Central's balance sheet of \$0.7 billion in loans to Ontario credit unions, as loans to B.C. credit unions decreased by \$0.3 billion. With residential real estate firmly in buyer's market territory, credit unions prudently decreased their overall discounting of consumer loans and also met the demand for loans from deposits rather than borrowings. Credit unions also continued to successfully use securitization to fund member loan demand. Although current conditions in global financial markets have effectively closed system access to commercial paper securitization conduits, the system through Central securitized \$1.09 billion of residential mortgages in the first nine months of 2008 through the Canada Mortgage Bond Program. As at September 30, assets securitized by the system directly or indirectly through Central were as follows:

\$ millions	<b>September 30, 2008</b>	<b>September 30, 2007</b>
Total Securitized	\$3,692	\$3,230

### Summary of Quarterly Results

Central's financial results for each of the last eight most recently completed quarters are summarized in the accompanying table. In general, Central's net interest income is quite stable from quarter to quarter, with no discernable seasonal trend, and reflects the condition of prevailing financial markets. Non-interest income and non-interest expenses are also generally consistent from quarter to quarter, although revenue from the technology and payments areas has a slight seasonal pattern, with fourth quarter revenue being approximately 10-15% higher than that of the first quarter. Gains and losses on disposal of financial instruments and changes in fair value of financial instruments may also have a significant impact on quarterly net income, but their timing and magnitude are not predictable.

**CENTRAL - QUARTERLY EARNINGS**

(Millions of \$)	2008/2007				2007/2006			
	Period Ended				Period Ended			
	31-Dec-07	31-Mar-08	30-Jun-08	30-Sep-08	31-Dec-06	31-Mar-07	30-Jun-07	30-Sep-07
Total Interest Income	64,278	58,278	51,374	71,191	52,453	53,458	55,084	60,306
Total Interest Expense	55,401	49,526	42,017	57,444	45,293	46,233	47,716	52,655
Interest margin	8,877	8,752	9,357	13,747	7,160	7,225	7,368	7,651
Gain on disposal of financial instruments	4,367	6,297	4,188	3,352	(71)	(113)	1,270	2,243
Changes in fair value of financial instruments	(4,861)	(7,321)	(1,376)	(15,896)	105	591	259	(1,481)
Recovery (provision) for credit losses	28	0	34	(316)	(795)		29	0
Non-Interest Income	13,941	14,008	15,367	20,986	13,549	12,514	13,319	12,900
Non-Interest Expenses	(15,731)	(15,448)	(16,174)	(23,483)	(16,630)	(13,671)	(14,789)	(14,382)
Unusual Items	(772)	(290)	(2,150)	0	(168)	(332)	(592)	3,711
Income Taxes	(1,168)	(1,023)	(1,465)	340	(499)	(1,107)	(1,205)	(1,689)
<b>Net Income</b>	<b>4,681</b>	<b>4,975</b>	<b>7,781</b>	<b>(1,270)</b>	<b>2,651</b>	<b>5,107</b>	<b>5,659</b>	<b>8,953</b>
Shares	113.40	113.40	113.40	157.66	113.40	113.40	113.40	113.40
Earnings per share from continuing operations								
Basic (cents)	4.81	4.64	8.76	(0.81)	2.49	4.80	5.51	4.62
Diluted (cents)	4.81	4.64	8.76	(0.81)	2.49	4.80	5.51	4.62
Earnings per Share								
Basic	4.13	4.39	6.86	(0.81)	2.34	4.50	4.99	7.90
Diluted	4.13	4.39	6.86	(0.81)	2.34	4.50	4.99	7.90

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

**Capital Resources**

Central's capital position remained strong. In the quarter, Central's available capital resources reached \$469.0 million, compared to \$316.4 million as at September 30, 2007, with \$131.3 million of the increase representing shares issued in respect of the combination with CUCO.

Central's regulatory capital levels are determined according to both federal guidelines and provincial regulations. Central's federal capital adequacy borrowing multiple was within its targeted operating range and above that at September 30, 2007. Additionally, the borrowing multiple was also well below the federal regulatory maximum. Central's provincial risk-weighted total capital ratio at 20.9% remains considerably higher than both Central's target and provincial requirements. This reflects the high quality and, hence, low risk weighting of securities in Central's liquidity portfolio.

	September 30, 2008	September 30, 2007	Target	Regulatory Requirement
Borrowing Multiple	16.9:1	14.9:1	16:1 – 18:1	20:1
Risk-weighted Ratios	20.9%	24.0%	11 – 14%	10%

## **Mergers and Acquisitions**

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

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

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

### **Changes in Accounting Policies**

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

## Critical Accounting Estimates

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

## 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, 2007, and for the nine months ended September 30, 2008, for operations in B.C. Based on that evaluation, management has concluded that the design of its internal controls and procedures over financial reporting was effective.

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

Central has not yet completed its evaluation of the design of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the three-month period ended September 30, 2008, for operations in Ontario. However, Central does not anticipate any significant deficiencies in the design of these controls.

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

		(Thousands of dollars)		
		September 30	December 31	
Notes	2008	2007	2007	
Notes	2008	2007	2007	
<b>Assets</b>				
Cash		\$ 126,518	\$ 111,031	\$ 28,529
Securities	5	4,894,727	2,770,402	3,753,662
Amounts on deposit with regulated financial institutions	6	167,529	324,284	211,058
Loans	7	2,162,332	1,797,662	1,482,978
Capital assets		14,944	13,522	13,834
Other	8	250,856	166,950	172,121
		<u>\$ 7,616,906</u>	<u>\$ 5,183,851</u>	<u>\$ 5,662,182</u>
<b>Liabilities</b>				
Notes	10	\$ 672,177	\$ 1,008,788	\$ 968,774
Deposits	11	6,244,105	3,700,926	4,223,377
Other	12	240,905	157,781	150,447
		<u>7,157,187</u>	<u>4,867,495</u>	<u>5,342,598</u>
Subordinated Debt	13	<u>51,316</u>	<u>49,724</u>	<u>49,671</u>
<b>Members' Equity</b>				
Share Capital	14	157,658	113,353	113,354
Shares to be issued as result of merger	2	4,922	-	-
Contributed Surplus	2	87,131	-	-
Retained Earnings		174,174	164,351	167,148
Accumulated Other Comprehensive Income (Loss)		(15,482)	(11,072)	(10,589)
		<u>408,403</u>	<u>266,632</u>	<u>269,913</u>
		<u>\$ 7,616,906</u>	<u>\$ 5,183,851</u>	<u>\$ 5,662,182</u>
Guarantees and contingencies	18			
Subsequent event	24			

Approved by the Directors:

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

"Fred Wagner"  
Fred Wagner, Chairperson - Audit Committee

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

	Notes	For the three months ended		for the nine months ended	
		September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Interest Income</b>					
Securities		\$ 48,097	\$ 34,596	\$ 117,866	\$ 93,270
Amounts on deposit with regulated financial institutions		1,846	3,641	6,101	11,111
Loans		21,248	22,069	56,876	64,467
		<u>71,191</u>	<u>60,306</u>	<u>180,843</u>	<u>168,848</u>
<b>Interest Expense</b>					
Notes		6,761	12,399	24,858	31,440
Deposits		50,117	39,668	122,411	113,410
Subordinated debt		566	588	1,718	1,754
		<u>57,444</u>	<u>52,655</u>	<u>148,987</u>	<u>146,604</u>
<b>Interest Margin</b>					
		13,747	7,651	31,856	22,244
Gain on disposal of financial instruments	9	3,352	2,243	13,837	3,400
Changes in fair value of financial instruments	15	(15,896)	(1,481)	(24,593)	(631)
Net financial income		1,203	8,413	21,100	25,013
Provision (recovery) of credit losses	7	316	0	282	(29)
		887	8,413	20,818	25,042
Other income	16	20,986	12,900	50,361	38,733
Net financial and other income		<u>21,873</u>	<u>21,313</u>	<u>71,179</u>	<u>63,775</u>
<b>Operating Expenses</b>					
Salaries and employee benefits		11,038	7,402	27,371	22,449
Premises and equipment		2,021	1,102	4,148	2,895
Other administrative expenses		10,424	5,878	23,586	17,498
		<u>23,483</u>	<u>14,382</u>	<u>55,105</u>	<u>42,842</u>
<b>Income (loss) from operations before the following</b>					
		(1,610)	6,931	16,074	20,933
Gain on sale of rental property		-	4,330	-	4,330
Combination transaction costs		-	(619)	(2,440)	(1,543)
		<u>(1,610)</u>	<u>6,312</u>	<u>13,634</u>	<u>23,720</u>
<b>Income (loss) before income taxes</b>					
		(1,610)	10,642	13,634	23,720
Income taxes	17	(340)	1,689	2,148	4,001
		<u>(1,950)</u>	<u>12,331</u>	<u>15,782</u>	<u>27,721</u>
<b>Net Income (Loss)</b>					
		<u>\$ (1,270)</u>	<u>\$ 8,953</u>	<u>\$ 11,486</u>	<u>\$ 19,719</u>

See accompanying notes to the interim consolidated financial statements

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

	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
Net Income (Loss)	\$ (1,270)	\$ 8,953	\$ 11,486	\$ 19,719
Other comprehensive income (loss) (net of tax)				
Net unrealized gains (losses) on available-for-sale assets <sup>1</sup>	(6,116)	3,281	(3,301)	(8,880)
Reclassification of (gains) losses on available-for-sale assets to net income <sup>2</sup>	(704)	610	(1,631)	700
	(6,820)	3,891	(4,932)	(8,180)
Net gains (losses) on derivative instruments designated as cash flow hedges <sup>3</sup>	(255)	723	81	(428)
Reclassification of (gains) losses on derivative instruments designated as cash flow hedges recorded in prior periods <sup>4</sup>	-	21	(42)	100
	(255)	744	39	(328)
Other comprehensive income (loss)	(7,075)	4,635	(4,893)	(8,508)
Comprehensive income (loss)	\$ (8,345)	\$ 13,588	\$ 6,593	\$ 11,211
Income taxes (recoveries) deducted from the above items				
<sup>1</sup> Net unrealized gains (losses) on available-for-sale assets	\$ (1,144)	\$ 674	\$ (561)	\$ (1,924)
<sup>2</sup> Reclassification of (gains) losses on available-for-sale assets to net income	\$ (131)	\$ 231	\$ (295)	\$ 250
<sup>3</sup> Net gains (losses) on derivative instruments designated as cash flow hedges	\$ (44)	\$ 154	\$ 15	\$ (91)
<sup>4</sup> Reclassification of (gains) losses on derivative instruments designated as cash flow hedges recorded in prior periods	\$ -	\$ 4	\$ (7)	\$ 21

See accompanying notes to the interim consolidated financial statements

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

	Notes	(Thousands of dollars)			
		For the three months ended		For the nine months ended	
		September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Share Capital</b>					
Balance at beginning of period		\$ 113,354	\$ 113,353	\$ 113,354	\$ 113,353
Shares issued during the period	14	44,304		44,304	
Balance at end of period		<u>\$ 157,658</u>	<u>\$ 113,353</u>	<u>\$ 157,658</u>	<u>\$ 113,353</u>
Shares to be issued as result of merger		<u>\$ 4,922</u>	<u>\$ -</u>	<u>\$ 4,922</u>	<u>\$ -</u>
<b>Contributed Surplus</b>					
Balance at beginning of period		\$ -	\$ -	\$ -	\$ -
Amount credited during the period	2	87,131	-	87,131	-
Balance at end of period		<u>\$ 87,131</u>	<u>\$ -</u>	<u>\$ 87,131</u>	<u>\$ -</u>
<b>Retained Earnings</b>					
Balance at beginning of period		\$ 177,144	\$ 157,409	\$ 167,148	\$ 149,444
Transition adjustments on adoption of new accounting policies <sup>1</sup>		-	-	-	1,093
Net Income (Loss)		(1,270)	8,953	11,486	19,719
Dividends		(2,019)	(2,472)	(5,265)	(7,202)
Related tax savings	17	319	461	805	1,297
Balance at end of period		<u>\$ 174,174</u>	<u>\$ 164,351</u>	<u>\$ 174,174</u>	<u>\$ 164,351</u>
<b>Accumulated Other Comprehensive Income (Loss) (net of tax)</b>					
Balance at beginning of period		\$ (8,407)	\$ (15,707)	\$ (10,589)	\$ -
Transition adjustments on adoption of new accounting policies <sup>1</sup>		-	-	-	(2,564)
Other comprehensive income (loss)		(7,075)	4,635	(4,893)	(8,508)
Balance at end of period		<u>\$ (15,482)</u>	<u>\$ (11,072)</u>	<u>\$ (15,482)</u>	<u>\$ (11,072)</u>
Members' Equity at end of period		<u>\$ 408,403</u>	<u>\$ 266,632</u>	<u>\$ 408,403</u>	<u>\$ 266,632</u>

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

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

(Thousands of dollars)

Notes	For the three months ended September 30 2008	September 30 2007	For the nine months ended September 30 2008	September 30 2007
<b>Cash flows from operating activities</b>				
Net Income (Loss)	\$ (1,270)	\$ 8,953	\$ 11,486	\$ 19,719
Adjustments for:				
Depreciation	632	488	1,659	1,390
Realized gains and holding gains	11,274	(4,776)	9,486	(2,769)
Gain on disposition of capital assets		(4,330)	-	(4,330)
Net change in accrued interest	17,255	6,489	4,633	(717)
Provision (recovery) of credit losses	7 316	-	282	(29)
Other items, net	38,758	(5,255)	31,411	(61,945)
	<u>66,965</u>	<u>1,569</u>	<u>58,957</u>	<u>(48,681)</u>
<b>Cash flows from financing activities</b>				
Merger with Credit Union Central of Ontario, net of cash acquired	2 6,950	-	6,950	-
Dividends - net of income taxes	(2,970)	461	(11,939)	(7,792)
Net change - settlements-in-transit	(2,829)	(27,232)	16,603	(79,935)
Net change - notes	(147,498)	121,546	(294,406)	251,326
Net change - deposits	(197,808)	153,120	(244,311)	(170,992)
	<u>(344,155)</u>	<u>247,895</u>	<u>(527,103)</u>	<u>(7,393)</u>
<b>Cash flows from investing activities</b>				
Net change - securities	546,369	406	627,070	450,056
Net change - amounts on deposit with regulated financial institutions	401	(302)	41,061	64,733
Net change - loans	(185,104)	(283,243)	(103,115)	(380,684)
Net changes - loans available for sale	(3,818)	5,161	3,888	5,161
Capital asset acquisitions	(2,548)	(754)	(2,769)	(1,772)
	<u>355,300</u>	<u>(278,732)</u>	<u>566,135</u>	<u>137,494</u>
Increase (decrease) in cash resources	78,110	(29,268)	97,989	81,420
Cash resources - beginning of period	48,408	140,299	28,529	29,611
Cash resources - end of period	<u>\$ 126,518</u>	<u>\$ 111,031</u>	<u>\$ 126,518</u>	<u>\$ 111,031</u>
<b>Supplemental Information</b>				
Interest received	<u>\$ 68,716</u>	<u>\$ 64,008</u>	<u>\$ 178,522</u>	<u>\$ 169,193</u>
Interest paid	<u>\$ 38,700</u>	<u>\$ 47,459</u>	<u>\$ 141,294</u>	<u>\$ 136,378</u>

See accompanying notes to the interim consolidated financial statements

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

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

Central is the primary financial facility and trade association for credit unions in British Columbia and its member credit unions in Ontario. The performances of the British Columbia and Ontario credit union systems play an integral part in determining the results of Central's operations and its financial position.

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

**1. Basis of presentation**

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

Except as described in note 3, these interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles(GAAP), using the same accounting policies as set out in Central's Consolidated Financial Statements for the year ended December 31, 2007. Under GAAP, additional disclosures are required in the annual financial statements and accordingly, these interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2007 and the accompanying notes.

**2. Merger with Credit Union Central of Ontario Limited (CUCO)**

On July 1, 2008 Central acquired substantially all of the assets of CUCO for a total estimated cost of \$155.941 million as indicated below. The results of CUCO's operations have been included in the Interim Consolidated Financial Statements since that date.

The following table summarizes the preliminary estimates of the fair value of the assets acquired and liabilities assumed by Central.

(Millions of dollars)	
Assets	
Cash and securities	\$ 1,795.076
Loans	578.794
Other	<u>97.878</u>
	<u>2,471.748</u>
Liabilities	
Deposits & borrowings	2,248.337
Other	<u>67.470</u>
	<u>2,315.807</u>
Net assets acquired	<u>\$ 155.941</u>

On closing, Central issued class A shares with a par value of \$44.275 million and class E shares with a par value of \$.006 million to CUCO based on the preliminary estimated fair value of net assets acquired at that time. Under the terms of the combination agreement between Central and CUCO, Central also issued a promissory note to CUCO to provide additional compensation after the occurrence of certain events. At period end, the estimated amounts payable on that promissory note are class A shares with par value of \$4.919 million, class E shares with a par value of \$.003 million and cash of \$16.507 million.

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

Also on closing, Central committed to provide up to \$5 million to the Ontario ABCP limited partnership (ABCP LP). ABCP LP acquired a significant portion of CUCO's ABCP holdings immediately prior to closing. Under the terms of this commitment, Central has agreed to share in a portion of losses realized by ABCP LP according to a specified formula. The estimated fair value of this obligation at closing was \$3.100 million.

Central has recognized the excess of the preliminary estimated fair value of net assets acquired of \$155.941 million over the amounts paid or payable in cash to CUCO and the par value of shares issued and to be issued of \$65.710 million and the estimated fair value of the obligation to ABCP LP of \$3.100 million as Contributed Surplus.

Contributed surplus recognized on closing was \$87.131 million, of which \$60.389 million relates to class E shares already issued and the remainder relates to class E shares to be issued.

The preliminary estimate of the fair value of net assets acquired by Central is based on information available at the time of preparation of the Interim Consolidated Financial Statements and is subject to adjustment upon the completion of certain closing procedures including the filing of tax elections.

### **3. Changes in Accounting Policies**

#### *Capital Disclosures and Financial Instruments – Disclosures and Presentation*

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

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

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

### **4. Fair value of financial instruments**

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

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid price for financial assets held or an offer price for financial 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

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

measured at fair value subsequent to initial recognition, fair value is determined as described above. The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates.

*Financial instruments whose book values approximate fair value*

Fair value is assumed to be equal to carrying value for cash, demand loans classified as loans and receivable and demand deposits classified as other liabilities because of their short-term nature. Equity securities classified as available-for-sale, for which fair value is not determinable through observable market information, are held at cost.

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

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

**5. Securities**

Securities designated as trading are as follows:

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Amortized cost	<u>\$ 533,917</u>	<u>\$ 109,979</u>	<u>\$ 267,641</u>
Fair value	<u>\$ 524,442</u>	<u>\$ 109,465</u>	<u>\$ 267,321</u>

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

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Amortized cost	<u>\$ 4,399,091</u>	<u>\$ 2,675,931</u>	<u>\$ 3,500,954</u>
Fair value	<u>\$ 4,370,285</u>	<u>\$ 2,660,937</u>	<u>\$ 3,486,341</u>

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

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
	<u>\$ 4,894,727</u>	<u>\$ 2,770,402</u>	<u>\$ 3,753,662</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

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

	(Millions of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Government & guarantees	\$ 544.5	\$ 248.3	\$ 465.3
Corporate & major financial Institutions R-1(Mid) or greater	4,036.1	2,350.0	2,950.5
Other	<u>314.1</u>	<u>172.1</u>	<u>337.9</u>
	<u>\$ 4,894.7</u>	<u>\$ 2,770.4</u>	<u>\$ 3,753.7</u>

At the period-end, securities having a book value of \$326.7 million (September 30, 2007 - \$316.1 million; December 31, 2007 - \$315.8 million) were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments.

Included in securities designated as trading are debt instruments issued by Lehman Brothers Holdings Inc. (Lehman Brothers) with a par value of \$10 million. Lehman Brothers filed for bankruptcy protection on September 15, 2008 and these instruments are carried net of a provision of \$8.5 million. Uncertainty remains with respect to the timing and amount of future cash flows on these securities that could give rise to a material change in the value of these instruments.

Securities classified as Available for Sale include third party asset-backed commercial paper (ABCP) with a par value of \$33.0 million (September 30, 2007 - \$23.0 million; December 31, 2007 - \$23.0 million). This includes ABCP securities with a par value of \$10.0 million which were acquired on the closing of the merger with CUCO as described in Note 2. These securities, which were rated R-1 (High) by Dominion Bond Rating Service, did not settle at their scheduled maturity dates and there has been no active trading of the ABCP since mid-August, 2007.

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

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

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

During the nine months ended September 30, 2008, Central recorded a charge to Net Income of \$5.2 million (nine months ended September 30, 2007 - \$0.9 million; year ended December 31, 2007 - \$2.9

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

million) to reflect its best estimate of the expected future cash flows on its ABCP holdings. This adjustment is included in Changes in fair value of financial instruments.

As at September 30, 2008 the total provision related to Central's ABCP holdings was \$9.2 million (September 30, 2007 - \$0.9 million; December 31, 2007 - \$ 2.9 million). Uncertainty remains with respect to the timing and amount of future cash flows on the ABCP that could give rise to a material change in the value of Central's ABCP holdings.

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

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

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Amortized cost	<u>\$ -</u>	<u>\$ 24,946</u>	<u>\$ 25,064</u>
Fair value	<u>\$ -</u>	<u>\$ 25,109</u>	<u>\$ 25,194</u>

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

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Amortized cost	<u>\$ 166,396</u>	<u>\$ 297,890</u>	<u>\$ 183,885</u>
Fair value	<u>\$ 167,529</u>	<u>\$ 299,175</u>	<u>\$ 185,864</u>

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

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
	<u>\$ 167,529</u>	<u>\$ 324,284</u>	<u>\$ 211,058</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

**7. Loans**

		(Thousands of dollars)		
		September 30	September 30	December 31
		2008	2007	2007
Due on demand - Credit unions		\$ 44,197	\$ 35,848	\$ 29,318
	- Co-operatives and others	<u>7,230</u>	<u>4,429</u>	<u>4,116</u>
		<u>51,427</u>	<u>40,277</u>	<u>33,434</u>
Term	- Credit unions	1,924,212	1,726,341	1,414,506
	- Co-operatives	11,085	11,170	14,339
	- Commercial & other	154,675	2,000	2,000
	- Officers and employees	<u>20,658</u>	<u>15,067</u>	<u>15,869</u>
		<u>2,110,630</u>	<u>1,754,578</u>	<u>1,446,714</u>
		2,162,057	1,794,578	1,480,148
Accrued interest		<u>4,484</u>	<u>3,901</u>	<u>3,896</u>
		2,166,541	1,798,756	1,484,044
Allowance for losses		<u>4,209</u>	<u>1,094</u>	<u>1,066</u>
		<u>\$ 2,162,332</u>	<u>\$ 1,797,662</u>	<u>\$ 1,482,978</u>

Officer and employee loans bear interest at rates varying from 2.15% to 5.50%.

Impaired loans are as follows:

	Gross Impaired	Specific Provision	General Provision	September 30 2008	Net Impaired September 30 2007	December 31 2007
Credit unions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cooperatives	1,032	(1,032)	-	-	-	-
Commercial & other	<u>4,483</u>	<u>(2,139)</u>	<u>(1,038)</u>	<u>1,306</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,515</u>	<u>\$ (3,171)</u>	<u>\$ (1,038)</u>	<u>\$ 1,306</u>	<u>\$ -</u>	<u>\$ -</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

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

	Specific Provision	General Provision	Nine months ended September 30 2008	Nine months ended September 30 2007	Year ended December 31 2007
Balance at beginning of period	\$ 1,066	\$ -	\$ 1,066	\$ 1,123	\$ 1,123
Acquired on merger with CUCO (Note 2)	1,838	1,023	2,861	-	-
Collection of loans previously written off	(34)	-	(34)	(29)	(57)
Loans written off as uncollectible	-	-	-	-	-
Provision for credit losses	<u>301</u>	<u>15</u>	<u>316</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,171</u>	<u>\$ 1,038</u>	<u>\$ 4,209</u>	<u>\$ 1,094</u>	<u>\$ 1,066</u>

**8. Other assets**

(Thousands of dollars)

	<b>September 30 2008</b>	September 30 2007	December 31 2007
Market revaluation of trading derivatives	<b>\$ 101,882</b>	\$ 47,428	\$ 57,836
Assets available for sale designated as trading	<b>18,141</b>	-	20,715
Assets available for sale at amortized cost	<b>83,000</b>	112,293	84,805
Accounts receivable	<b>9,042</b>	2,395	2,114
Prepaid expenses	<b>2,662</b>	2,760	2,360
Income taxes receivable	<b>4,938</b>	-	-
Investment in hedge funds	<b>24,886</b>	-	-
Future income taxes (Note 17)	<u><b>6,305</b></u>	<u>2,074</u>	<u>4,291</u>
	<u><b>\$ 250,856</b></u>	<u>\$ 166,950</u>	<u>\$ 172,121</u>

At period-end, the amortized cost of the assets available for sale designated as trading was **\$17,578** thousand (September 30, 2007 - \$0 thousand; December 31, 2007 - \$20,527 thousand)

**9. Loan Securitizations**

During the three months ended September 30, 2008, Central securitized mortgages with Canada Housing Trust (the Trust) with a book value of \$432.7 million which had been acquired from member credit unions.

The fair value of derivative contracts acquired as a result of these transactions, together with proceeds received from the Trust, totalled \$434.9 million (three months ended September 30, 2007 - \$353.6 million); year ended December 31, 2007 - \$987.4 million) which resulted in a gain on these transaction of

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

\$2.2 million (three months ended September 30, 2007 - \$2.1 million, year ended December 31, 2007 - \$7.2 million) which was recorded in Gain on disposal of financial instruments.

The total principal amount of loans securitized by Central outstanding at September 30, 2008 was **\$2,159.1** million (September 30, 2007 - \$508.7 million; December 31, 2007 - \$947.0 million)

**10. Notes**

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Operating lines			
- with Credit Union Central of Canada	\$ -	\$ -	\$ 44,839
- with other regulated financial institutions	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>44,839</u>
Notes			
- due within three months	<b>395,118</b>	479,826	494,736
- due after three months and within one year	-	224,977	124,953
- due after one year and less than five years	<u>274,987</u>	<u>299,886</u>	<u>299,983</u>
	<u>670,105</u>	<u>1,004,689</u>	<u>919,672</u>
	<b>670,105</b>	1,004,689	964,511
Accrued interest	<u>2,072</u>	<u>4,099</u>	<u>4,263</u>
	<u><b>\$ 672,177</b></u>	<u>\$ 1,008,788</u>	<u>\$ 968,774</u>

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

Central is authorized to issue up to \$1.5 billion in short term commercial paper and up to \$1.5 billion in other borrowings which includes Central's mid term note facility. At September 30, 2008, **\$395.1** million was borrowed under the short term commercial paper facility (September 30, 2007 - \$479.8 million; December 31, 2007 - \$394.7 million) and **\$275.0** million was borrowed under the mid term note facility (September 30, 2007 - \$525.0 million; December 31, 2007 - \$525.0 million).

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

**11. Deposits**

Deposits designated as trading are as follows:

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Amortized cost	<u>\$ 1,580,161</u>	<u>\$ 1,768,741</u>	<u>\$ 2,424,967</u>
Fair value	<u>\$ 1,591,301</u>	<u>\$ 1,766,729</u>	<u>\$ 2,426,480</u>

Deposits classified as other liabilities are as follows.

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Due on demand	\$ 313,121	\$ 152,881	\$ 143,489
Due within three months	2,073,155	566,405	575,378
Due after three months and within one year	1,179,802	406,119	344,978
Due after one year and less than five years	1,043,774	775,698	704,575
Due after five years and less than six years	<u>675</u>	<u>768</u>	<u>284</u>
	4,610,527	1,901,871	1,768,704
Accrued interest	<u>42,277</u>	<u>32,326</u>	<u>28,193</u>
	<u>\$ 4,652,804</u>	<u>\$ 1,934,197</u>	<u>\$ 1,796,897</u>

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

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
	<u>\$ 6,244,105</u>	<u>\$ 3,700,926</u>	<u>\$ 4,223,377</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

**12. Other liabilities**

(Thousands of dollars)

	September 30 2008	September 30 2007	December 31 2007
Market revaluation of trading derivatives	\$ 85,390	\$ 57,419	\$ 62,494
Settlements-in-transit	73,316	71,741	56,713
Securities sold under repurchase agreements	21,201	-	-
Dividends	1,976	7,202	9,455
Future income taxes (Note 17)	3,214	1,208	975
Accrued vacation and sick benefits	1,228	1,202	1,281
Employee future benefits	17,167	11,646	11,984
Net amount payable to CUCO (Note 2)	16,507	-	-
Trade amounts and other	<u>20,906</u>	<u>7,363</u>	<u>7,545</u>
	<u>\$ 240,905</u>	<u>\$ 157,781</u>	<u>\$ 150,447</u>

**13. Subordinated Debt**

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

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

**14. Shares**

Central may issue an unlimited number of class "A", "B", "C" and "E" shares and may, at its option and on the approval of the directors, redeem its shares. There are no restrictions on the number of shares that may be held by a member shareholder. The class "A", "B" and "C" shares have a par value of \$1 per share, and the class "E" shares have a par value of \$.01 per share.

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.

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

The numbers of shares issued are as follows:

	(Thousands of shares)		
	<b>September 30</b>	September 30	December 31
	<b>2008</b>	2007	2007
Class A – credit unions			
Balance at beginning of period	113,345	113,345	113,345
Issued on merger with CUCO (Note 2)	<u>44,275</u>	-	-
Balance at end of period	<u>157,620</u>	<u>113,345</u>	<u>113,345</u>
Class B – co-operatives			
Balance at beginning and end of period	<u>3</u>	<u>3</u>	<u>3</u>
Class C – other			
Balance at beginning of period	6	5	5
Issued for cash during the period	<u>1</u>	-	<u>1</u>
Balance at end of period	<u>7</u>	<u>5</u>	<u>6</u>
Class E – credit unions			
Balance at beginning of period	-	-	-
Issued to credit unions in British Columbia	2,168	-	-
Issued on merger with CUCO (Note 2)	<u>664</u>	-	-
Balance at end of period	<u>2,832</u>	<u>-</u>	<u>-</u>

The amounts outstanding are as follows:

	(Thousands of dollars)		
	<b>September 30</b>	September 30	December 31
	<b>2008</b>	2007	2007
Outstanding \$1 par value shares			
Class A – credit unions	\$ 157,620	\$ 113,345	\$ 113,345
Class B – co-operatives	3	3	3
Class C – other	7	5	6
Outstanding \$.01 par value shares			
Class E – credit unions	<u>28</u>	-	-
	<u>\$ 157,658</u>	<u>\$ 113,353</u>	<u>\$ 113,354</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

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

	(Thousands of dollars)			
	For the three months ended		For the nine months ended	
	<b>September 30, 2008</b>	September 30, 2007	<b>September 30, 2008</b>	September 30, 2007
Trading assets	<b>\$ (7,201)</b>	\$ 3,163	<b>\$ (8,569)</b>	\$ 2,632
Trading deposits	<b>(1,843)</b>	(5,061)	<b>(7,926)</b>	99
Adjustment of ABCP holdings to fair value as described in Note 4	<b>(3,613)</b>	(903)	<b>(5,258)</b>	(903)
Ineffective portion of cash flow hedges	<b>(15)</b>	11	<b>40</b>	(13)
Ineffective portion of fair value hedges	<b>(54)</b>	59	<b>(13)</b>	106
Trading derivatives	<u><b>(3,170)</b></u>	<u>1,250</u>	<u><b>(2,867)</b></u>	<u>(2,552)</u>
	<u><b>\$ (15,896)</b></u>	<u>\$ (1,481)</u>	<u><b>\$ (24,593)</b></u>	<u>\$ (631)</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

**16. Other Income**

	(Thousands of dollars)			
	For the three months ended		For the nine months ended	
	<b>September 30, 2008</b>	September 30, 2007	<b>September 30, 2008</b>	September 30, 2007
Membership Dues	<b>\$ 2,223</b>	\$ 1,127	<b>\$ 4,726</b>	\$ 3,446
Provincial Advertising Assessment	<b>624</b>	609	<b>1,873</b>	1,827
Technology & Payment Services				
- Processing	<b>10,381</b>	5,431	<b>21,995</b>	15,810
- Technical Operations	<b>556</b>	522	<b>1,601</b>	1,437
- Internet banking	<b>3,085</b>	2,354	<b>8,315</b>	6,897
Financial Services				
- Treasury Services	<b>1,037</b>	273	<b>1,390</b>	784
- Funding Services	<b>646</b>	264	<b>1,814</b>	916
- Property rents	<b>188</b>	315	<b>753</b>	971
- Other	<b>116</b>	114	<b>1,111</b>	871
Trade Services				
- Risk Management	<b>678</b>	509	<b>1,922</b>	1,457
- Manuals	<b>244</b>	248	<b>752</b>	764
- Registered Plans	<b>377</b>	444	<b>1,332</b>	1,373
- Other	<b><u>831</u></b>	<u>690</u>	<b><u>2,777</u></b>	<u>2,180</u>
	<b><u>\$ 20,986</u></b>	<u>\$ 12,900</u>	<b><u>\$ 50,361</u></b>	<u>\$ 38,733</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

**17. Provision for income taxes**

Income taxes reported in the financial statements are as follows:

	(Thousands of dollars)			
	For the three months ended		For the nine months ended	
	<b>September 30, 2008</b>	September 30, 2007	<b>September 30, 2008</b>	September 30, 2007
Provision for income taxes in Statements of Income	\$ (340)	\$ 1,308	\$ 2,148	\$ 3,620
Provision for income taxes on gain on sale of rental property	-	381	-	381
Income tax benefit related to dividends accrued	<u>(319)</u>	<u>(461)</u>	<u>(805)</u>	<u>(1,297)</u>
Total	<u>\$ (659)</u>	<u>\$ 1,228</u>	<u>\$ 1,343</u>	<u>\$ 2,704</u>

Components of total income taxes are as follows:

Current income taxes	\$ (194)	\$ 2,201	\$ 2,971	\$ 2,951
Future income taxes	<u>(465)</u>	<u>(973)</u>	<u>(1,628)</u>	<u>(247)</u>
Total	<u>\$ (659)</u>	<u>\$ 1,228</u>	<u>\$ 1,343</u>	<u>\$ 2,704</u>

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

	For the three months ended		For the nine months ended	
	<b>September 30, 2008</b>	September 30, 2007	<b>September 30, 2008</b>	September 30, 2007
	%	%	%	%
Combined federal and provincial statutory income tax rates	<b>32.0</b>	34.1	<b>32.0</b>	34.1
Reduction available to credit unions	<b>(17.0)</b>	(16.0)	<b>(17.0)</b>	(16.0)
Change in effective rate as result of merger with CUCO (Note 2)	<b>5.0</b>	-	(0.6)	-
Other	<u>1.1</u>	<u>(2.2)</u>	<u>1.4</u>	<u>(1.2)</u>
Total	<u><b>21.1</b></u>	<u>15.9</u>	<u><b>15.8</b></u>	<u>16.9</u>

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

Components of future income tax balances are as follows:

	(Thousands of dollars)		
	<b>September 30 2008</b>	September 30 2007	December 31 2007
Future income tax assets:			
Financial instruments	\$ 3,153	\$ -	\$ 2,064
Employee future benefits	2,592	1,817	1,857
Other	<u>560</u>	<u>257</u>	<u>370</u>
	<u><b>6,305</b></u>	<u>2,074</u>	<u>4,291</u>
Future income tax liabilities:			
Financial instruments	2,192	517	374
Pension asset	376	-	-
Fixed assets	<u>646</u>	<u>447</u>	<u>601</u>
Total	<u><b>3,214</b></u>	<u>1,208</u>	<u>975</u>
	<u><b>\$ 3,091</b></u>	<u>\$ 866</u>	<u>\$ 3,316</u>

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

**18. Guarantees and contingencies**

Central is exposed to risk as a party to off-balance sheet financial instruments, that, in the normal course of business, are used to meet its own and its credit union member's financial needs. These instruments include guarantees such as standby letters of credit as well as commitments to accept deposits at agreed rates and terms.

(Contractual amounts in thousand of dollars)

	<b>September 30 2008</b>	September 30 2007	December 31 2007
Financial instruments whose contract amounts could represent credit risk:			
Standby letters of credit	\$ 199,118	\$ 210,692	\$ 693,769
Commitments to extend credit	\$ 2,762,457	\$ 1,566,366	\$ 1,824,529

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

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

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

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

(Millions of dollars)	<u>Floating<sup>(1)</sup></u>	<u>Within 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 Year to 5 Years</u>	<u>Over 5 Years</u>	<u>Not Rate Sensitive</u>	<u>Total</u>
<b>Assets</b>							
Cash	\$ 126.5 2.25%	\$ - -	\$ - -	\$ - -	\$ - -	\$ - -	\$ 126.5 2.25%
Securities	- -	2,659.1 3.40%	506.5 3.53%	1,615.5 4.33%	34.01 4.50%	77.9 -	4,893.0 3.67%
Amounts on deposit with regulated financial institutions	- -	103.5 3.26%	27.5 4.10%	34.1 5.07%	- -	2.4 -	167.5 3.72%
Loans	56.4 4.00%	1,963.7 3.76%	74.5 4.62%	61.9 5.38%	5.3 5.57%	0.5 -	2,162.3 3.85%
Other assets	- -	4.6 3.71%	9.2 4.02%	85.2 4.38%	1.0 5.50%	165.9 -	265.9 1.63%
<b>Total</b>	<u>\$ 182.9</u> 2.79%	<u>\$ 4,730.9</u> 3.55%	<u>\$ 617.7</u> 3.69%	<u>\$ 1,796.7</u> 4.38%	<u>\$ 40.3</u> 4.67%	<u>\$ 248.4</u> -	<u>\$ 7,616.9</u> 3.63%
<b>Liabilities</b>							
Notes	\$ - -	\$ 670.1 3.24%	\$ - -	\$ - -	\$ - -	\$ 2.1 -	\$ 672.2 3.23%
Deposits	312.4 1.00%	2,376.8 3.09%	1,962.7 3.53%	1,513.6 3.91%	0.7 3.47%	77.9 -	6,244.1 3.28%
Subordinated Debt	- -	- -	- -	49.8 4.53%	- -	1.5 -	51.3 4.40%
Other liabilities	- -	- -	- -	- -	- -	240.9 -	240.9 -
Members' Equity	- -	- -	- -	- -	- -	408.4 -	408.4 -
<b>Total</b>	<u>\$ 312.4</u> 1.00%	<u>\$ 3,046.9</u> 3.12%	<u>\$ 1,962.7</u> 3.53%	<u>\$ 1,563.4</u> 3.93%	<u>\$ 0.7</u> 3.47%	<u>\$ 730.8</u> -	<u>\$ 7,616.9</u> 3.01%
On Balance Sheet Gap	(129.5)	1,684.0	(1,345.0)	233.3	39.6	(482.4)	
Off Balance Sheet Gap	-	(793.1)	696.6	91.7	4.8	-	
Total Gap – September 30, 2008	<u>\$ (129.5)</u>	<u>\$ 890.9</u>	<u>\$ (648.4)</u>	<u>\$ 325.0</u>	<u>44.4</u>	<u>\$ (482.4)</u>	
Total Gap – September 30, 2007	<u>\$ (115.8)</u>	<u>\$ 111.6</u>	<u>\$ 97.6</u>	<u>\$ 102.7</u>	<u>\$ 70.9</u>	<u>\$ (267.0)</u>	
Total Gap – December 31, 2007	<u>\$ (126.3)</u>	<u>\$ 132.4</u>	<u>\$ 3,12.3</u>	<u>\$ 17.6</u>	<u>\$ 42.7</u>	<u>\$ (378.7)</u>	

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

(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.

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

(Millions of dollars)	<b>Fair Value</b>		<b>Book Value</b>		<b>Unrealized Gain (Loss)</b>	
	<b>September 30 2008</b>	September 30 2007	<b>September 30 2008</b>	September 30 2007	<b>September 30 2008</b>	September 30 2007
<b>Assets</b>						
Cash	\$ 126.52	\$ 111.03	\$ 126.52	\$ 111.03	\$ -	\$ -
Securities	4,894.73	2,770.40	4,894.73	2,770.40	-	-
Amounts on deposit with regulated financial institutions	167.53	324.28	167.53	324.28	-	-
Loans	2,160.98	1,797.11	2,162.33	1,797.66	(1.35)	(0.56)
Other assets	250.87	111.88	250.86	112.29	0.01	(0.42)
<b>Liabilities</b>						
Notes & Deposits	6,629.80	4,702.80	6,916.28	4,709.71	(13.52)	691
Subordinated Debt	48.85	48.20	51.31	49.72	2.46	(.08)
<b>Off-Balance Sheet Financial Instruments</b>						
Derivatives	16.49	(9.78)	16.49	(9.78)	-	-
<b>Total</b>					<b><u>\$ (12.40)</u></b>	<b><u>\$ 5.85</u></b>

Central's net unrealized gain as at December 31, 2007 was \$2.37 million.

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

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

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in Central's lending operations, its investment activities and its payment and settlement operations. Central's policies and procedures for managing credit risk are

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

presented in the Management's Discussion and Analysis (MD&A) on page 31 of our 2007 Annual Report. Summary information regarding Central's securities and loans is included in Notes 5 and 7 of the interim consolidated financial statements.

Liquidity risk is the risk of being unable to obtain funds at a reasonable price or within a reasonable time period to meet obligations as they come due. The contractual maturity of Central's non-trading notes and deposits is included in notes 10 and 11 of the interim consolidated financial statements. Central's role as liquidity provider for its member credit unions is described in the MD&A on page 31 of our 2007 Annual Report and Central's policies and procedures for managing liquidity risk are presented in the MD&A on pages 41 to 43 of our 2007 Annual Report. Financial guarantees, issued by Central on behalf of its members, are summarized in note 18 of the interim consolidated financial statements.

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and market prices. Central's policies and procedures for managing market risk are included in the MD&A on pages 30 to 32 of our 2007 Annual Report. Information regarding the weighted average yields and costs of Central's assets and liabilities and information on the fair value of financial assets and liabilities is contained in notes 19 and 20 of the interim consolidated financial statements.

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

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

Before Tax Impact of:	(Thousands of Dollars)			
	Interest Margin		Fair value of net assets	
	Amount	Percentage of Base Forecast	Amount	Percentage of Base Forecast
200 bp increase in rates	8,421	16.4	(17,318)	(4.7)
200 bp decrease in rates	(9,475)	(18.9)	15,753	4.3

**22. Capital management**

Central's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions and provincial regulations administered by the Financial Institutions Commission of British Columbia. Pursuant to federal regulations, Central is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Provincial regulations, which apply to B.C. credit unions as well as Central, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk-weighted capital, calculated by dividing regulatory capital by risk-weighted assets, must exceed 8 percent. Furthermore, Central must maintain a risk-weighted capital ratio of at least 10 percent to enable member credit unions in British Columbia to risk-weight their deposits with Central at zero percent.

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

**Central 1 Credit Union**  
**Notes to the September 30, 2008 Interim Consolidated Financial Statements**  
**Unaudited**

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

	Regulatory Requirement	<u>2008</u>	<u>2007</u>
Federal Borrowing Multiple	20:1	16.9	14.9
Provincial Risk-Weighted Ratio	8%	20.9%	24.0%

**23. Comparative amounts**

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

**24. Subsequent Event**

On October 14, 2008 the Canadian Payments Association announced that it would discontinue its Truncation and Electronic Cheque Presentment (TECP) initiative. This project was initiated to develop a industry-wide image-based clearing process which would allow financial institutions to exchange cheque images for clearing purposes. At the end of the period, Central had capitalized \$1.4 million in TECP – related expenditures, which will be written down to \$nil in a subsequent period. Central may also be required to expend additional amounts related to the termination of this project. The overall impact of this decision on Central's financial statements in subsequent periods is not readily determinable.