



## 2008 Management's Discussion and Analysis

Amended May 29, 2009

Central 1 Credit Union's annual financial statements for the year ended December 31, 2008, originally filed on SEDAR on March 18, 2009, were restated and refiled on May 29, 2009, to correct errors resulting from an input error in one of its derivative valuation models. This MD&A, originally filed on March 18, 2009, and amended and refiled on April 22, 2009, has also been amended and refiled on May 29, 2009, to correct information affected by the restatement.

Subsequent to year-end, Central identified an input error in one of its derivative valuation models, which resulted in an overstatement of Central's derivative assets of \$3.8 million. The impact of the error was to overstate Changes in Fair Value of financial instruments by \$3.8 million and to overstate Central's 2008 Net Income by \$3.2 million.

The restatement reduces net income for 2008 from the previously reported \$29.8 million to \$26.6 million.

The amount transferred to retained earnings for 2008 is restated as \$20.9 million, compared with \$24.1 million reported earlier. With the restatement, retained earnings at year-end 2008 were \$188.1 million.

# MANAGEMENT'S DISCUSSION & ANALYSIS

As at February 15, 2009  
except for revisions as explained in Note 2 of the financial statements which are as at May 8, 2009

## OVERVIEW

This section of the Annual Report of Central 1 Credit Union (Central) provides a discussion and analysis of its financial condition and results of operations for the 12 months ended December 31, 2008, compared to those of the prior two years.

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 the operations acquired from CUCO have been included in Consolidated Financial Statements for the same period.

The results presented in this management discussion and analysis and in the financial statements that follow are reported in Canadian dollars and are based on the significant accounting policies summarized in *Note 4* to the financial statements. Certain comparative amounts have been reclassified to conform to the current year's presentation. Additional information on Central, including its Annual Information Form, may be found on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com).

These documents may also include statements about the credit union system in British Columbia and Central's member credit unions in Ontario, the latter of which are collectively identified as the Ontario credit union system. In the charts and discussion presented in this report, the two provincial systems are individually referred to as the "British Columbia (or B.C.) credit union system" and the "Ontario credit union system." Where the term "system" appears without regional designation, it refers to Central's total membership, encompassing credit unions in both provinces.

Financial information for the British Columbia system has been provided by the Financial Institutions Commission of British Columbia (FICOM), the provincial credit union regulator. Financial information for the Ontario system has been provided by the Deposit Insurance Corporation of Ontario (DICO), which makes available reports on information it receives from Ontario credit unions. Central has no means of verifying the accuracy of information provided by credit unions to FICOM or DICO or the subsequent compilation of that information by FICOM and DICO.

### Business Profile

As the primary financial facility and trade association for the networks of independent credit unions in British Columbia and Ontario, Central provides leadership, support and a multitude of services to its member/owners. Together, Central's member credit unions, which numbered 48 in British Columbia and 148 in Ontario as at December 31,

2008, operate over 800 branches and deliver a wide range of financial services to more than 2.9 million members.

Central's services to members generally fall into three distinct categories: 1) centralized liquidity and funding services; 2) technology and payment services; 3) government relations and trade services.

Centralized liquidity and funding services are fundamentally concerned with managing the system's statutory and excess liquidity reserves and fostering its growth, which involves lending funds to credit unions, accessing capital markets for short-term and long-term funding, and coordinating and administering securitization programs. Central also provides foreign exchange services, derivatives capabilities and other ancillary treasury, funding, and lending services.

Central's payment and settlement operations encompass processing paper items and electronic transactions such as Electronic Funds Transfer (EFT) and Electronic Data Interchange (EDI) payments on behalf of member credit unions. Central also provides other centralized payment services, including domestic and foreign wire transfers. Central is a member of the Canadian Payments Association (CPA) and clears items through the Canadian credit union clearing group, which is represented in the Canadian payments system by Credit Union Central of Canada (CUCC).

Central's technology personnel develop and deliver electronic Internet banking products and e-commerce technology, not only for member credit unions in British Columbia and Ontario but for credit unions and other financial institutions across the country. Under the *MemberDirect*<sup>®</sup> umbrella, Central provides credit unions with both the personal electronic banking services they offer to their individual members and business-to-business products for small and medium-size enterprises.

Central is the primary spokesperson for the British Columbia and Ontario credit union systems, identifying and promoting dialogue on issues, providing government relations and legislative representation and promoting the system's collective interests with all levels of government.

In other aspects of its trade association role, Central delivers operational support, strategic consulting and research services tailored to the needs of member credit unions. Among these services are strategic planning, research and analysis, insurance, project management and compensation advice.

While Central's primary focus is on servicing member credit unions, Central is expanding the scope of its business to provide services to credit unions and other centrals across Canada, particularly in the consulting and payments areas. In addition, Central continues to build and diversify its external client base through contracts to provide payments processing and technology services to financial institutions,

retail organizations, government and crown corporations. The benefits resulting from increased volumes and fees flow through to member credit unions via lower direct fees on certain products or through higher dividends paid by Central.

#### **Factors that May Affect Future Results**

There are numerous factors, many beyond Central's control, that could cause results to differ from expectations. Some of the major factors are identified below. Other factors, including credit, liquidity, market and appreciation risk, are described elsewhere in this document. The following discussion of factors that may influence future results is not exhaustive. In addition, this discussion may include forward-looking statements with regard to 2009 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.

#### **Industry and Non-Corporate Factors**

As the wholesale financial services provider to member credit unions, Central is affected by prevailing economic and business conditions in Canadian capital markets, including the impact of the continuing volatility in the financial markets and lack of liquidity in credit markets. Factors such as interest rates, inflation, consumer spending and business spending not only impact residential real estate lending – the primary lending activity for B.C. and Ontario credit unions – but also influence demand for the majority of other credit union products and services.

Although Central and its member credit unions have excellent working relationships with all levels of government and with regulators, changes in statutes, regulations and regulatory policies that govern the financial industry's activities could affect results for Central and the system. In addition, while Central takes what it believes to be reasonable measures to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there can be no complete assurance that Central will always be in compliance. Hence, it is possible that Central could be subject to fines or other costs that could damage Central's reputation and have an adverse effect on earnings.

Central's earnings are affected by the monetary policies of the Bank of Canada and, to a lesser extent, by those of the U.S. Federal Reserve system. Monetary policy decisions determine the level of interest rates, which, in turn, have a significant impact on earnings. Central manages its balance sheet in a reasonably risk-neutral manner, one in which the interest rate exposures of assets and liabilities are mostly matched, with the residual assets that represent the investment of Central's equity spread across terms of up to seven years.

Consequently, a prolonged period of low rates would tend to reduce net interest income earned on Central's non-trading portfolio, while increasing the value of its longer-term assets. Conversely, an increase in interest rates would produce an increase in net interest income, while decreasing the value of Central's longer-term assets.

The interest rate differential, or spread, between Government of Canada securities and those issued by other participants in fixed income markets also affects Central's earnings. Central earns income from accepting credit union statutory deposits at rates based on Government of Canada securities and investing in securities issued by the Government of Canada, other levels of government and corporations. To the extent that spreads change, Central's net interest income would be affected.

#### **System-Specific Factors**

Demand for Central's products and services reflects the needs of credit unions and their members. Thus, the system's performance and competitive positioning in the marketplace are critical to Central's long term success. For example, statutory credit union deposits are a function of system assets, whereas loans to credit unions are driven by consumer lending at the retail level. Consumer usage also dictates payment volumes.

There is strong competition for members/customers among Canada's financial services providers. The degree of such competition may have an impact on the performance of Central and the system. Although credit unions enjoy strong member loyalty, retention is influenced by their ability to deliver products and services at competitive price and service levels vis-à-vis other financial institutions. Non-financial companies can also offer members a range of competing service and product options.

#### **Corporate-Specific Factors**

Ongoing mergers within both provincial systems have resulted in fewer but larger credit unions and a disparity between the relative asset size of Central and some of its members. This presents a challenge to Central in maintaining its ability to deliver the breadth of financial services required by these large, steadily growing organizations. However, on July 1, 2008, Central achieved significant growth and greatly narrowed this disparity, as a result of its merger with CUCO.

The business combination was structured as a purchase and sale transaction, with Central acquiring substantially all of the assets and assuming 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

## MANAGEMENT'S DISCUSSION & ANALYSIS

transaction, 148 credit unions in Ontario became members of Central. These credit unions contributed capital to Central by subscribing for Class A shares and contributed surplus to ensure that Central continued to be well capitalized. As a result of the merger, Central's assets increased to over \$8.5 billion, the majority of which consist of highly rated liquid securities or loans to member credit unions, in keeping with Central's role as the liquidity manager for its member credit unions. Although Central has acquired some syndicated commercial loans from the merger with CUCO, there has not been a substantial change in Central's overall risk profile.

Integration risks of harmonizing the Ontario and British Columbia operations are relatively low and should not represent a major disruption to Central's operations. However, integration of the two organizations is inherently a complex and time consuming process, which has the potential to disrupt Central's business if not completed in a timely and efficient manner. The integration process involves a number of risks and challenges, including the possibility that resources may be diverted from regular business opportunities and operations. Failure to effectively complete the integration in a timely manner could adversely affect the business and future operating results of the combined organization.

Contracts to extend payment and technology services to other organizations have enabled Central to stabilize and reduce overall costs for member credit unions. Continued expansion of its customer base for such services is considered a factor in Central's ability to realize profitability improvement in these areas.

Central is exposed to operational and infrastructure risks. Given the high volume of transactions Central processes on behalf of its members and external organizations, shortcomings in its internal processes could lead to financial and reputational damage. Furthermore, although Central has contingency and business continuity plans, its ability to conduct business could be adversely affected by disruptions in the infrastructure required to support its business.

### Risk Management

During 2008, Central's assessment of risk, at the corporate level, was largely directed to ensuring that the controls associated with the disclosure of public information were adequate. This involved an assessment and testing of entity level, disclosure, operational and information technology controls as they relate to the effectiveness of Central's disclosure controls. Central determined that these controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Because of the July 1, 2008 merger of Central with CUCO, the assessment and testing of controls was confined to those systems and operations that

were in place in B.C. prior to completion of that transaction. The systems and operations in place in Ontario will be documented, assessed and tested prior to September 1, 2009.

In 2007, Central obtained certification under ISO 27001, an internationally recognized standard for information technology security over the *MemberDirect*<sup>®</sup> suite of operations. During 2008, the scope of the certification was successfully expanded to include a significant portion of the others areas of business. The remaining business areas and Ontario region are expected to be brought into scope within two years. The process for maintaining certification requires a semi-annual on-site audit by the certification body and that Central maintain a robust Information Security Management System (ISMS). The ISMS requires Central to design, implement and maintain a coherent suite of processes and systems for effectively managing information accessibility, thus ensuring the confidentiality, integrity and availability of information assets and minimizing information security risks.

Central's management, with the support of the Audit Committee, continues to undertake rigorous testing of the effectiveness of internal controls over financial reporting. Although this testing is not mandated by current securities commissions' requirements, Central continues with this process as it provides a further layer of assurance on the control framework surrounding financial reporting.

CUCC, Central, and the other provincial central credit unions that participate in the Canadian clearing system through CUCC also take part in a Clearing Risk Committee, which oversees risks related to new payment technologies and businesses.

Based on assessment of its risk profile, Central addresses the categories of risk noted above at the corporate and operational policy levels. Central's operational policies are the subject of internal review by senior management, Board committees and the Board of Directors. The Audit Committee has overall responsibility for the adoption, implementation and adherence to enterprise risk management guidelines and oversees the quality and effectiveness of Central's policies and procedures. In addition, these policies are scrutinized in external reviews by both provincial and federal regulators and reviewed as part of Central's internal audit process. To augment these ongoing measures, Central engages external consultants with the requisite technical expertise to review and evaluate new or substantially revised processes, systems and policies.

It is the role of Central's Disclosure Committee to ensure that all material financial information, as defined in Central's Disclosure Policy and released by Central to its members, to investors in its securities, and to regulatory authorities, is accurate, complete, and presents fairly the financial position

of Central and the results of its operations, in all material respects. All such information is required to be disclosed in a timely manner, and in a format in accordance with the requirements established by applicable laws and regulatory authorities. The committee is accountable to the Chief Executive Officer (CEO) and, through the CEO, reports to the Audit Committee of the Board of Directors.

Central's approach to managing and mitigating specific types of risk is as follows:

#### **Credit Risk**

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour financial or contractual obligations. Credit risk arises from traditional lending and investment activity and from settling payments between Central and its counterparties associated with both on- and off-balance sheet financial instruments.

Credit risk associated with Central's credit union lending portfolio is minimal, as member credit union loans are fully secured and Central has never experienced a loss on any of these loans.

Involvement in commercial lending has been restricted to syndications originated by member credit unions under the Loan Syndication Program in response to the needs of local members. Commercial loans are evaluated by a skilled commercial lender and are subject to review by an objective Credit/Delinquency Committee. A credit scoring system is used to quantify and evaluate the risks inherent in proposed credits. Annually, the status of each credit is reviewed in the same manner as a new credit proposal.

The Credit/Delinquency Committee is responsible for monitoring problem loans, ensuring that appropriate action is taken and that allowances are adequate to cover potential losses. Specific allowances are established for exposures based on analysis of individual accounts to reduce the carrying value of an impaired loan to its estimated realizable amount. General allowances for loss are also established to absorb probable credit losses on the aggregate exposures in each of Central's business lines for which losses are not yet specifically identified on an item-by-item basis.

Investment credit risk is carefully managed by imposing strict requirements on the credit quality of each issuer of securities and on derivative counterparties. Credit risk in settlement operations is mitigated by the taking of security or by ensuring that the counterparty is of high credit quality.

In managing credit risk exposure, Central's policies establish limits for acceptable levels and areas of credit risk, establish clearly defined accountabilities for decision-making and determining credit worthiness, and provide for diversification to avoid excessive risk concentrations. These policies involve adherence to a number of key procedures, including:

- application of sound, stringent lending and/or funding criteria to all assets prior to their acquisition;
- credit reviews by internal management, and if required by policy, either a Board-appointed committee or the Board, itself, before funding is extended;
- once funding is approved, ongoing credit risk evaluation and assessment;
- diversification of assets to reduce credit exposure to issuer and industry concentration, with all loan and securities credits being subject to individual and related group limits;
- continuous review of the criteria used to establish credit approval, and the immediate reduction in credit limit approval if market or other conditions indicate that a deterioration in credit quality has occurred or is likely to occur; and
- appropriate pricing of approved credits to ensure that adequate compensation is received for the risk incurred.

#### **Liquidity Risk**

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. As manager of its own liquidity and that of its member credit unions, Central is responsible for ensuring that managed assets are available to meet its own needs, together with those of the system. Central is also the manager of national liquidity under the terms of the National Liquidity Fund Agreement (NLFA), an agreement by which participating central credit unions have agreed to provide liquidity to one another under certain conditions.

The key elements of Central's liquidity risk framework are:

- **Funding Diversification** -- Central strives to diversify its funding liabilities by source, type of depositor, type of instrument and term.
- **Core Liquidity** -- Central maintains a pool of highly liquid securities that can be readily sold or pledged to secure borrowings under even stressed market conditions. Central also maintains liquid securities to support system obligations in settlement, payment and clearing systems.
- **Stress Testing** -- Central performs stress testing on a regular basis to evaluate disruptions on Central's and the systems' liquidity positions.
- **Measurement and Modelling** -- Central in conjunction with key credit unions in the system measures and models system liquidity on a regular basis.
- **Contingency Planning** -- Central maintains a liquidity contingency plan that specifies an approach for responding to a liquidity crisis. The plan outlines the mandate of the crisis management team, the internal

## MANAGEMENT'S DISCUSSION & ANALYSIS

and external parties to be contacted and the actions to be considered at various stages of a liquidity event.

(See also *Liquidity Management*, page 48.)

### Market Risk

Market risk refers to the risk of loss resulting from changes in interest rates and foreign exchange rates. The level of market risk to which Central is exposed varies depending on market conditions, future price and market movements and the composition of Central's investment, lending and derivative portfolios.

Interest rate risk is the potential adverse impact on Central's earnings and economic value due to changes in interest rates. As most of its balance sheet is made up of interest-bearing assets and liabilities with different maturity dates, Central potentially has significant exposure to interest rate changes.

Central continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modelling its assets, liabilities and equity, including off-balance sheet exposures, against the impact of various possible rate increases or decreases. Central's interest rate risk policy defines acceptable percentage limit changes in net interest income and net economic value to parallel shifts in the yield curve. Central also analyzes the impact of interest rate volatility on net interest income, using Monte Carlo income simulations, and sets statistical limits on the variance of net interest income in such simulations.

The extent of Central's exposure to interest rate changes at each of the last three year-ends is illustrated in the interest sensitivity schedule (*Chart 1*). *Notes 28* and *30* to the financial statements provide, respectively, additional information regarding weighted average yields and costs associated with the assets and liabilities and information on the fair value of financial assets and liabilities compared to their book value. The chart summarizes carrying amounts by the earlier of the contractual repricing or maturity dates.

Foreign exchange rate risk is the potential adverse impact on Central's earnings and economic value due to currency

rate movements and volatility. Central has assets and liabilities denominated in US dollars and buys foreign currencies from and sells these currencies to its member credit unions. The risk associated with changing foreign currency values is managed by applying stringent limits on the amounts (short or long positions) that can be maintained in the various currencies, and by utilizing derivative exchange contracts to lessen the impact of on-balance sheet positions. *Note 29* to the financial statements provides additional information regarding foreign currency exposure.

### Operational Risk

Operational risk is the exposure to loss resulting from inadequate internal controls, policies that do not provide sufficient direction, practices that expose Central to the risk of loss, and human error or management failure. Generally, operational risk is measured in terms of actual losses that have occurred. While the financial impact associated with operational risk can be significant, it is equally important to recognize the less identifiable and quantifiable non-financial impacts. Real or perceived changes in an institution's credibility can damage its reputation, image, and customer confidence.

Central manages this type of risk through implementation of a comprehensive set of procedures and policies that are basic to its operating infrastructure. Elements of this process include: developing and maintaining a comprehensive system of internal controls – integrated with ongoing internal and external evaluation and testing – encompassing segregation of functional activities, managerial reporting and delegation of authority; maintaining best industry practices in the area of operational risk management through continued monitoring and evaluation of Central's practices; selection and training of highly qualified staff, supported by policies that provide for skills upgrading, clear authorization levels and adherence to an employee code of conduct; and maintaining a comprehensive portfolio of insurance to reduce the impact of any potential losses, augmented by

CHART 1 CARRYING AMOUNTS BY EARLIER OF CONTRACTUAL REPRICING OR MATURITY DATE

<i>December 31</i> <i>(Millions of dollars)</i>	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years	Not Rate Sensitive	Total
<b>Total Assets</b>	\$ 5,043.9	\$ 663.8	\$ 2,201.6	\$ 77.6	\$ 570.9	\$ 8,557.8
<b>Total Liabilities</b>	4,890.9	1,226.2	1,488.9		951.8	8,557.8
<b>On-Balance Sheet Gap</b>	153.0	(562.4)	712.7	77.6	(380.9)	
<b>Off-Balance Sheet Gap</b>	(395.1)	246.4	148.7	-	-	
<b>Total Gap 2008</b>	\$ (242.1)	\$ (316.0)	\$ 861.4	\$ 77.6	\$ (380.9)	
<b>Total Gap 2007</b>	\$ 6.1	\$ 312.3	\$ 17.6	\$ 42.7	\$ (378.7)	
<b>Total Gap 2006</b>	\$ 92.1	\$ 103.5	\$ 113.0	\$ 41.4	\$ (350.0)	

contingency business resumption plans for activation in response to systems failure or catastrophic events, including off-site data storage and back-up processing capabilities for all critical operations.

The merger with CUCO involves a number of integration risks and challenges. Central has prepared detailed integration plans designed to minimize these risks and realize the benefits of the merger in a timely and efficient manner. The approach includes the following measures to integrate existing processes, systems and business continuity arrangements and to establish the platform for future business opportunities:

- creation of the strategic vision and integration approach aimed at common understanding of the strategic goals and integration objectives;
- assessment and implementation of the opportunities;
- project organization, management and oversight including multilevel organizational involvement in the project;
- detailed project planning and current control over the integration process including regular reporting on implementation status;
- engagement of human resources and business culture harmonization;
- regular internal and stakeholder communications; and
- integration risk management.

As well as having the above measures in place, Central's policies provide for a rigorous, ongoing review of its practices and procedures by internal audit teams, technology systems security personnel and management personnel. External resources, when required, also supplement the internal reviews. With the increasing exposure to electronic/technological risk, Central has implemented real-time intrusion detection monitoring of its remote banking applications, which are accessed by credit union members across Canada. In addition, both provincial and federal regulatory agencies undertake periodic reviews of Central's operations and contingency plans.

#### OVERALL PERFORMANCE

In 2008, as unprecedented turmoil rocked the global economy, Central successfully managed the internal organizational challenges involved in completing the first merger in Canada between two provincial central credit unions. Reflecting the growth achieved through this landmark combination, Central's financial results for the year reached all-time highs, while its member credit unions in British Columbia posted record net income of \$235

million and those in Ontario maintained solid performance before the writedown described on page 38. The following summaries of the economic landscape, the state of financial markets and performance by both provincial systems in 2008 offer a context for interpreting Central's year-over-year results and an insight into its future.

#### The Economic Environment

Economic conditions and trends in 2008 reflected the chaos that prevailed in global financial markets. A series of events involving major financial institutions resulted in large losses in holdings of mortgage-backed and other securitized assets, often held in complex financial instruments. Most forms of credit became more costly and less available to borrowers; some credit markets seized up, prompting unprecedented policy responses from central banks to increase the flow of credit. Such repercussions were initially sparked by price declines among the underlying assets.

The institutional failures that occurred during 2008, particularly those reported in September, constituted a major shock to the world economy and subsequently spurred a rapid deterioration in consumption, production, investment, and resource utilization. Commodity prices plummeted and global trade volumes decreased. Sharp declines in equity markets, rapid currency realignments, a flight-to-safety plunge in government bond yields, and strong risk-aversion drove up corporate bond yields.

Fallout from the financial crisis resulted in a global economic recession. The economies of B.C. and Ontario could not avoid the impact of lower commodity prices and falling demand for exports. Credit unions operating in this financial and economic environment found it challenging to maintain credit flows and financial profitability.

#### British Columbia

In British Columbia, these negative global forces struck at a time when the economy was already slowing due to a correction in the province's previously overheated housing industry and the longer-running recession in wood products manufacturing and exports. The economy likely slipped into recession in the fourth quarter of the year, when the number of job losses mounted.

Lower prices and export demand for forestry, mining, and energy products led to production cutbacks and job layoffs in B.C.'s resource sectors. Companies pared back on investment spending in new projects or on expansion of existing operations. The transportation sector faced less demand for rail and port services to export markets as well as less demand to handle incoming imports.

B.C.'s housing market experienced a mild adjustment during the first half of the year. Slackening sales and slower

## MANAGEMENT'S DISCUSSION & ANALYSIS

price increases first emerged in 2007 as a consequence of decreased affordability for low-equity buyers and less investor demand. In early 2008, sales and prices continued to decline gradually. However, later in the year, a rapid fall in sales coincided with the increased frequency of negative financial events, ominous economic news, and a deteriorating economic outlook. Surveys captured a sharp plunge in consumer confidence by year-end. Builders and developers swiftly cut back on new projects and cut prices on standing inventory to spur sales. The housing market fell into a steeper recession with price declines accelerating.

Commercial real estate held up better than residential in 2008, but rising bankruptcies and fewer business incorporations are a negative precursor to 2009 market conditions. Investment in commercial buildings steadily declined during the year.

Population growth and net migration, in particular, plateaued in 2008. Declining interprovincial migration to B.C. has been temporarily offset by higher international migration. However, diminishing job opportunities reduce the movement of people, which cuts into the demand for real estate and consumer goods and services.

The province's tourism industry is facing the effects of the unfolding recession. International tourist visits to the province continued to fall over the course of the year and domestic tourism no longer provides a positive offset. The economic downturn in B.C. and in neighbouring provinces is having a direct negative impact on the various tourism-related sectors such as accommodation, food, transportation and retail sales.

Consumer spending was down in 2008, with falling sales of new motor vehicles a major cause of a substantial drop-off by year-end. The declining housing market was a blow to sales of furniture, appliances and building materials. During the holiday season, retailers ran aggressive sales programs to attract customers whose wealth was reduced due to lower equity and real estate values. Income uncertainty was a rising concern among the labour force.

Job losses escalated during the last three months of the year, pushing the unemployment rate on a sharp upward trajectory. Job losses were fairly widespread across industries but mostly concentrated in construction and resources.

The economic and jobs outlook for 2009 is not favourable, particularly for the first half of the year. Low inflation and interest rates -- along with new fiscal stimulus packages and further market adjustments -- offer some basis for improved growth prospects later in the year and in 2010.

### **Ontario**

Ontario's economic performance during 2008 was poor, showing an overall contraction due mainly to declining export volumes combined with a sharp drop in housing

activity and consumer spending in the latter part of the year. This is the province's first recession since 1991 and is closely related to the U.S. economic downturn and its plummeting auto sales. Ontario's domestic-oriented economy was shaken as well by the financial crisis that hit the global economy following the shock waves experienced in September.

Conditions in the province's large auto industry deteriorated throughout 2008, reaching crisis proportions by year-end when the federal and provincial governments pledged \$4 billion in emergency loans to the Canadian subsidiaries of General Motors and Chrysler. The outcome of these and other measures to be undertaken by key industry participants is still unfolding. The industry faces significant challenges ahead, likely including further consolidation and contraction.

Job losses materialized in the fourth quarter, largely outside the Greater Toronto Area (GTA). Regions highly dependent on the auto industry, mining, and forestry resources fared poorly. Toronto's job market was not immune to the financial and economic crisis, as shown in unemployment rates that climbed sharply toward the year-end. The city's large financial services sector has undergone job cuts and its role as the country's financial and corporate centre also reflects adjustments occurring outside the GTA.

Most regions in Ontario experienced a sharp drop in housing sales in the second half of 2008, when the previously mild market adjustment deteriorated into a full-blown recession. Some markets fared better than others but none was spared and prices fell in varying degrees across all sectors. Builders and developers reacted to the sudden change in market conditions by putting the brakes on new investments. This bodes poorly for the domestic economy in 2009, as residential construction has a large employment base and is an employment multiplier.

Private investment spending adjusted for inflation on non-residential buildings declined steadily during the year and was poised for an ongoing contraction in 2009 due to market conditions and the credit squeeze. Spending on new machinery and equipment fared only slightly better. Consumer spending weakened considerably and tailed off in the closing months of 2008 in another sign of growing weakness in Ontario's domestic economy.

Economic trends heading into 2009 are mostly negative, suggesting continuing difficulties at the outset. The substantial monetary actions and planned fiscal stimuli will provide a boost to the economy later in the year and in 2010.

### **Financial Markets**

As it turns out, the problems that surfaced in 2007 were only appetizers before the main course served up in 2008 in what is proving to be a long and traumatic chapter in the history of financial markets. Few foresaw the "once in a lifetime" events that brought widespread havoc to global

financial systems and economies. Over the course of the year, the world witnessed the spectacular collapse of some U.S. investment banks, the nationalization or near nationalization of many of the major banks in Europe and the United States and the virtual bankruptcy of some sovereign countries. Only unprecedented monetary actions and fiscal stimulus packages by central banks and their governments throughout the developed world have prevented, to date, an outright depression rather than the current severe recession that is likely to continue throughout 2009.

The first half of 2008 was dominated by liquidity concerns as financial institutions sharply cut back on lending to each other and hoarded liquidity to ensure their own survival. Following the collapse of Lehman Brothers in September, liquidity issues quickly became solvency issues, which prompted sovereign governments to inject massive amounts of capital into key financial institutions, as well as to provide guarantees of deposits and borrowings and introduce plans to buy troubled assets from banks' balance sheets.

As 2009 begins, although liquidity and solvency issues linger, the focus is on restarting the global economy.

While Canada was not at the centre of the global financial maelstrom, its financial markets and economy were not immune to its effects. Liquidity dried up in fixed income markets and credit spreads, which were already wide entering the year, moved out to unprecedented levels, effectively preventing debt capital markets from functioning. In response, the federal government and the Bank of Canada implemented extraordinary measures to ensure that Canadian financial institutions -- Central and its member credit unions included -- had access to sufficient liquidity to be able to lend to individuals and businesses.

The Bank of Canada, in concert with other central banks, aggressively cut short-term interest rates. The Bank of Canada rate, which began the year at 4.50 percent, was 1.75 percent at year-end -- its lowest level on record. Moreover, in the first quarter of 2009 the rate is poised to fall even further. Interest rates right along the rest of the yield curve have also fallen sharply to levels not seen in a generation. More recently, the federal and provincial governments have announced aggressive fiscal stimulus plans that focus on job creation and infrastructure spending. While these plans call for substantial budgetary deficits, they are seen to be essential to moderate the severity and length of the current recession.

Clearly, 2009 will be a difficult year for capital markets and the Canadian economy. Financial margins for Central and its member credit unions will be under pressure from a combination of lower interest rates, higher funding costs and rising loan loss provisions. However, earnings were strong in 2008, capital levels are robust and liquidity is

firm, which leaves Central and the credit union system well prepared to meet the challenges that lie ahead.

### **B.C. Credit Union System Performance 2008**

Maintaining its momentum in 2008, British Columbia's credit union system forged ahead, ending the year with record-high earnings. Net operating income reached \$291 million, a gain of \$34 million, or 13.2 percent, over 2007. Return on equity was 9.5 percent, up a single basis point from 2007.

The B.C. system's strong growth in earnings in 2008 reflects much improved operating efficiency, mainly driven by higher margin, investment and fee income. These gains far outweighed higher loan expense and offset increased expenses on administration, labour, data processing, premises and equipment.

Earnings growth was led by financial margin, which increased entirely on the strength of asset growth, as gross spread narrowed very slightly.

At year-end 2008, B.C. system assets totalled \$45.5 billion, up a robust \$2.9 billion (6.7 percent) over year-end 2007. Asset growth was concentrated in liquid investments and mortgages. Cash and liquid investments rose by \$1.3 billion (26.7 percent); commercial mortgages by \$909 million (10.8 percent); and personal mortgages by \$413 million (1.7 percent). Meanwhile, commercial loans increased by \$61.9 million (6.6 percent) but personal loans were down by \$50 million (2 percent). (*Chart 2*, page 39, Loan Composition — B.C. Credit Union System.)

The year's asset growth was largely financed with non-registered deposits and capital. Non-registered demand deposits increased by \$1.3 billion (13.3 percent) and non-registered term deposits were up by \$1.0 billion (5.1 percent). The system's capital grew by \$302 million (12.8 percent) almost entirely on the strength of retained earnings. Meanwhile, registered term deposits rose by \$199 million (3.5 percent), registered demand deposits grew by \$66 million (19.2 percent) and borrowings fell by \$98 million (3.2 percent).

Realized credit risks increased in 2008 following several years of steady decline. The 90-day delinquency rate at year-end 2008 was 0.40 percent of the loan portfolio, up 19 basis points over year-end 2007. Loan loss expenses for the year were 0.14 percent of the loan portfolio, up from 0.09 percent in 2007. Reserves held against loan losses totalled 0.54 percent of the portfolio at year-end 2008, up from 0.48 percent a year earlier.

The B.C. system's pooled liquidity and capital adequacy ratios remained well above regulatory standards in 2008 and were, on average, higher than in 2007. Meanwhile, financial leverage remained close to traditional levels and was, on average, down slightly from 2007.

## MANAGEMENT'S DISCUSSION & ANALYSIS

B.C. credit union membership stood at 1,681,500 at year-end 2008, representing a year-over-year gain of 3.2 percent, or 52,065 members. System-wide staffing totalled 7,838 full-time equivalent positions, a 0.9 percent year-over-year increase of 73 positions. With one merger completed in 2008, B.C. had 48 local credit unions at year-end. The number of branches increased to 373 from 368 in 2007, while additions to the system's network of ATMs brought the total to 532 at year-end. (See page 58 for a five-year summary of the combined performance of the B.C. credit union system.)

### Ontario Credit Union System Performance 2008

*(As of September 30, 2008; data for December 31, 2008 were not available at time of writing.)*

For the nine months ending September 30, 2008, net operating income decreased by 9.2 percent to \$67.8 million compared to \$73.1 million for the same period last year. Return on equity for the nine month period annualized was 5.13 percent, down 55 basis points from the same period in 2007.

Asset growth was modest. At the end of the third quarter, assets for Central's Ontario members totalled \$19.9 billion, up from \$19.2 billion or 3.4 percent over third quarter 2007. Preliminary December 2008 system assets are reported at \$20.1 billion. Commercial lending activity was curtailed in light of the crippling credit markets. Cash and liquid investments increased by \$193 million (7.4 percent); commercial loans by \$402 million (9.7 percent); and residential mortgages by \$92 million (1.0 percent), after the securitization of \$324 million over the 12 month period. Personal loans were down by \$119 million (5 percent) as the trend in personal lending is shifting to home equity types of loan structures. (*Chart 2, Loan Composition -- Ontario Credit Union System*).

The Ontario system's growth was in retail deposits supporting residential lending, with a reduction in the reliance on wholesale borrowing. Non-registered demand deposits increased by \$465 million (7.7 percent); non-registered term deposits were up by \$431 million (2.3 percent); and registered deposits rose by \$22 million (0.5 percent). Credit unions in Ontario borrow from Central. Throughout 2008, they reduced their borrowings by \$4.5 million (0.8 percent). The system's capital grew overall by \$11 million (0.8 percent) with 2.6 percent of the growth from retained earnings and a reduction of 1.8 percent in membership shares and other Tier 1 and Tier 2 Capital.

The 90-day delinquency rate at the third quarter 2008

was 0.57 percent of the loan portfolio, up 14 basis points over the same period in 2007. The system's pooled liquidity remained in line with levels observed in prior years at close to 13 percent, which is well in excess of regulatory minimums of 8 percent. Capital adequacy ratios remained well above regulatory standards in 2008 and were, on average, higher than in 2007.

As at the third quarter 2008, Central had 148 member credit unions in Ontario, ten fewer than were members of CUCO in the same period in 2007. Ontario credit union membership stood at 1,230,477 at the third quarter 2008, representing a year-over-year decline reported as 4.4 percent, or 57,108 members. The number of branches decreased to 462 from 474. ( See page 59 for a five-year summary of the combined performance of the Ontario credit union system.)

### Ontario ABCP

At a special general meeting held May 31, 2008, members of CUCO approved a resolution to facilitate the merger with Central. As a pre-condition of the merger, CUCO divested itself of investments in certain third-party asset-backed commercial paper (ABCP). The resolution approved the creation of a limited partnership, ABCP 2008 Limited Partnership (the Partnership), to acquire these instruments, funded by member credit unions in proportion to their share investment in CUCO. As a result, on June 30, 2008, immediately prior to the merger, the excluded ABCP with a total par value of \$186.9 million was acquired by the Partnership at its estimated fair value of \$133.6 million.

The Partnership is governed by a Board of Directors that was elected by member credit unions of CUCO and each limited partner will record its proportionate share of net income or loss in the Partnership as determined by Canadian generally accepted accounting principles and subject to an annual external audit.

As at December 30, 2008, after maturities of certain investments, the par value of the ABCP owned by the Partnership was \$176.9 million having an estimated fair value of \$89.6 million and the Net Loss for the Partnership for the six month period ended December 30, 2008 was \$27.8 million.

Although Central has no ownership interest in the Partnership, Central has committed to provide up to \$7.2 million under certain conditions to share in a portion of losses realized by the Partnership as explained in note 3 to the financial statements.

CHART 2 PROVINCIAL CREDIT UNION SYSTEMS - LOAN COMPOSITION

**B.C. Credit Union System**

(Millions of dollars)	2008	%	2007	%	2006	%
Residential Mortgages	\$ 25,366.30	66.5%	\$ 24,961.10	67.8%	\$ 22,667.00	68.1%
Commercial Mortgages	9,314.70	24.4%	8,403.70	22.8%	7,264.10	21.8%
Personal Loans	1,335.60	3.5%	1,438.80	3.9%	1,496.30	4.5%
Lines of Credit not secured						
by Mortgages	1,372.60	3.6%	1,298.70	3.5%	1,228.20	3.7%
Other Commercial Loans	742.20	1.9%	705.6	1.9%	635.9	1.9%
<b>Total</b>	<b>\$ 38,131.40</b>	<b>100.0%</b>	<b>\$ 36,807.90</b>	<b>100.0%</b>	<b>\$ 33,291.50</b>	<b>100.0%</b>

**Ontario Credit Union System**

(Millions of dollars)	Sept. 30, 2008 <sup>1</sup>	%	2007	%	2006	%
Residential Mortgages	\$ 9,086.80	54.5%	\$ 8,719.00	55.3%	\$ 8,222.30	55.7%
Commercial Mortgages <sup>2</sup>	4,536.20	27.2%	4,027.00	25.5%	3,583.40	24.3%
Personal Loans	2,210.00	13.3%	2,220.50	14.1%	2,248.30	15.2%
Other Commercial Loans <sup>3</sup>	827.90	5.0%	805.30	5.1%	718.70	4.9%
<b>Total</b>	<b>\$ 16,660.90</b>	<b>100.0%</b>	<b>\$ 15,771.80</b>	<b>100.0%</b>	<b>\$ 14,772.70</b>	<b>100.0%</b>

**B.C. and Ontario Credit Union Systems Combined<sup>4</sup>**

(Millions of dollars)	2008 Estimate	%	2007	%	2006	%
Residential Mortgages	\$ 34,453.10	62.9%	\$ 33,680.10	64.1%	\$ 30,889.30	64.3%
Commercial Mortgages	13,850.90	25.3%	\$ 12,430.70	23.6%	\$ 10,847.50	22.6%
Personal Loans	3,545.60	6.5%	\$ 3,659.30	7.0%	\$ 3,744.60	7.8%
Lines of Credit not secured						
by Mortgages	1,372.60	2.5%	\$ 1,298.70	2.5%	\$ 1,228.20	2.6%
Other Commercial Loans	1,570.10	2.9%	\$ 1,510.90	2.9%	\$ 1,354.60	2.8%
<b>Total</b>	<b>\$ 54,792.30</b>	<b>100.0%</b>	<b>\$ 52,579.70</b>	<b>100.0%</b>	<b>\$ 48,064.20</b>	<b>100.0%</b>

<sup>1</sup> Figures are as of September 30, 2008.

<sup>2</sup> Ontario credit unions are not required to report Commercial Loans separately from Commercial Mortgages.

<sup>3</sup> Institutional Loans, Unincorporated Association Loans and Agricultural Loans.

<sup>4</sup> 2008 Figures for the Ontario system are as of September 30, 2008 and December 31, 2008 for the B.C. system.

Note: Figures are based on gross loans before provision for doubtful loans and do not include accrued interest.

All figures are unconsolidated and unaudited.

**Financial Overview**

For Central, 2008 was a record year in terms of financial performance, with the effects of the merger with CUCO contributing to revenue growth in each of its business units.

Most of the growth in Central's balance sheet is also attributed to the merger. Central's total assets rose to more than \$8.5 billion, an increase of \$2.9 billion or 51.3 percent over 2007. With \$2.5 billion in assets acquired from the merger with CUCO accounting for 43.6 percent of the increase, the remaining 7.7 percent reflects growth in the credit union system.

The results of the operations acquired from CUCO have

been included in the Consolidated Financial Statements since the date of the combination on July 1, 2008. Accordingly, the impact on the income statement in 2008 is limited to only six months of the Ontario operations.

Net income increased 8.9 percent from 2007 to \$26.56 million on average assets of \$6.61 billion – 30.1 percent higher than that posted last year. Despite significant unrealized losses in the fair value of financial instruments, the return on average assets and average equity remained relatively stable at 0.40 percent and 7.69 percent, respectively, and reflect an improvement over 2007 after factoring out

## MANAGEMENT'S DISCUSSION & ANALYSIS

that year's \$4.3 million gain on disposal of rental property. Earnings per share were 19.7 cents compared to 21.5 cents in 2007 (*Chart 4, page 41*).

Interest margin at \$47.10 million was the highest in Central's history, rising by more than 51.3 percent above the previous record of \$31.12 million reached last year. A combination of higher net interest spreads – 71 basis points in 2008 in comparison to 61 basis points in 2007 – and higher balances in 2008 than in 2007, primarily from the merger with CUCO, factored into this achievement. Gains on disposal of financial instruments, mainly from securitization activities, were offset by a net decrease in the fair value of financial instruments, resulting in a net change to income of \$2.54 million, compared to a credit of \$2.28 million in the previous year. Non-interest revenue increased by 40.3 percent to \$73.89 million in 2008 from \$52.67 million in 2007, driven primarily by growth in income from Central's technology and payment services, which increased with the merger with CUCO. Non-interest expense increased 42.3 percent to \$83.46 million, compared with \$58.57 million a year earlier.

*Chart 3* provides a three-year comparison of financial income, non-interest income and non-interest expense, all

expressed as a percentage of total revenue.

Despite volatile financial markets and challenging economic conditions, the year saw relative stability in Central's productivity ratio (defined as the ratio of Non-Interest Expense to the sum of Net Financial Income and Non-Interest Income), primarily due to increased net financial income combined with growth in non-interest income and control over non-interest expenses. The productivity ratio, in Central's case, must be viewed in proper context. As a wholesale provider of services to its credit union shareholders, Central prices many of its services on a cost-recovery basis, rather than at levels that would enhance net income and improve returns on equity or assets. This keeps Central's productivity ratio higher than would be the case if significant profit margins were built into product prices. However, as a wholesale provider of services, Central does not bear all of the infrastructure costs of other financial institutions.

Long-term financial liabilities of \$1.7 billion increased slightly from year-end 2007, as long-term deposits by credit unions increased to \$1.4 billion and long-term borrowings remained flat at \$0.3 billion.

CHART 3 MAJOR COMPONENTS — REVENUE & EXPENSE

<i>(Millions of dollars — % total income)</i>	2008		2007		2006	
Net Financial Income*	\$ 44.56	37.6%	\$ 33.40	38.8%	\$ 27.23	35.3%
Non-Interest Income	73.89	62.4%	52.67	61.2%	49.92	64.7%
Total Income	\$ 118.45	100.0%	\$ 86.07	100.0%	\$ 77.15	100.0%
Non-Interest Expense — Productivity Ratio %	\$ 83.46	70.4%	\$ 58.57	68.1%	\$ 55.60	72.1%

\* Excluding loss provisions, before gains on disposal of rental property and before combination transaction costs

#### CHART 4 SELECTED FINANCIAL INFORMATION

<i>(Millions of dollars)</i>	2008	2007	2006
<b>Earnings</b>			
Net Interest & Other Income-after provisions	\$ 117.35	\$ 86.13	\$ 76.35
Net Income	\$ 26.56	\$ 24.40	\$ 16.60
Weighted Average Shares Outstanding	\$ 136.87	\$ 113.35	\$ 113.35
<b>Earnings Per Share (cents)</b>			
Basic	19.7	21.5	14.6
Diluted	19.7	21.5	14.6
<b>Return On</b>			
Average Assets	0.40%	0.48%	0.37%
Average Equity	7.69%	9.16%	6.23%
<b>Balance Sheet Data (Billions of dollars)</b>			
Total Assets	\$ 8.56	\$ 5.67	\$ 5.18
Average Assets	\$ 6.61	\$ 5.08	\$ 4.48
Long-Term Financial Liabilities	\$ 1.71	\$ 1.47	\$ 1.52
<b>Share Information</b>			
Outstanding \$1 Par Value Shares <i>(Thousands of dollars)</i>			
Class A – Credit Unions	\$ 162,538	\$ 113,345	\$ 113,345
Class B – Cooperatives	6	3	3
Class C – Others	7	6	5
Class E – Credit Unions	29	-	-
Dividends Per Share (all classes, except Class E) <i>(cents)</i>	4.9	8.3	8.0

#### Financial Objectives

Central exceeded all four of its financial objectives for 2008 (*Chart 5*). As the system's liquidity manager, Central's first objective is to maintain liquid assets equal to at least 6 percent of system assets. Central's second objective is to

earn a return, before taxes, on average equity equal to or greater than its budgeted return. The other two financial objectives relate to exceeding capital ratios prescribed by provincial and federal regulations.

#### CHART 5 FINANCIAL OBJECTIVES

	2008	2007	2006
<b>Objective</b>			
Maintain 6% of System Assets in Liquid Form	8.3%	8.9%	8.9%
Exceed Pre-Tax Return on Average Equity Target			
Actual Return	9.1%	11.1%	8.0%
Target Return	4.5%	5.7%	5.3%
Maintain Regulatory Capital in Excess of 10% of "Risk Weighted Assets" at the Year-End	19.5%	20.8%	22.3%
Maintain "Borrowing Multiple" at a Ratio of less than 20:1 at the Year-End	18.1:1	16.2:1	15.2:1

## MANAGEMENT'S DISCUSSION & ANALYSIS

### SELECTED ANNUAL INFORMATION AND RESULTS OF OPERATIONS

This part of the report discusses Central's financial performance for the year ended December 31, 2008, and compares 2008 results with those of previous years. A Ten-Year Summary of Central's operations is provided at the end of the discussion (page 56).

#### The Income Statement

##### Financial Income

Central's net financial income in 2008, after trading gains and provision for credit losses, was \$43.46 million compared to \$33.46 million in 2007, a 29.9 percent increase.

Central's interest margin was a record \$47.10 million, 51.3 percent greater than the previous high of \$31.12 million, reached in 2007. Expressed as a percentage of average assets, Central's interest margin rose to 71 basis points compared to 61 basis points earned the previous year. Results for 2008 are attributed to balance sheet growth due to the merger with CUCO and, in the second half of the year, an unprecedented increase in the spread between government and corporate securities partially offset by the impact of lower interest rates. Average assets increased by 30.1 percent over those of 2007 as Central funded strong loan demand from its member credit unions while maintaining its commitment to hold at least 6 percent of system assets as liquid securities.

Gains on disposal of securities (*Note 20* to the financial statements) totalled \$25.25 million, compared to \$7.77 million in 2007. In 2008, net gains comprised \$11.25 million in gains on disposal of securities and \$5.20 million in gains on trading assets and derivatives as well as \$8.58 million in gains on securitization activities, as Central continued to expand its role in administering and facilitating securitization programs on behalf of member credit unions.

With the continued deterioration in credit markets, Central recorded a \$27.77 million reduction in the fair value of financial instruments (*Note 21* to the financial statements).

As described in *Note 8* to the financial statements, this reduction included a \$9 million write-down of Central's investment in debt securities of Lehman Brothers Holdings Inc., which had a par value of \$10 million, to \$1.0 million, following that firm's filing for bankruptcy protection during the year, and a \$6.59 million further reduction in the value of third-party asset backed commercial paper (ABCP). The balance includes an unfavourable change of \$27.40 million from the marking to market of financial instruments that are classified as trading, as a result of changes in the general level of interest rates and credit spreads during the year, offset by a favourable \$15.22 million change in the value of securitization derivatives acquired as a result of the loan securitization transactions described in *Note 13* to the financial statements.

The chart of comparative interest income and expense shows the yearly average balances of Central's earning assets and liabilities, their relative contribution or charge to net financial income and their yields and costs (*Chart 6*). In keeping with Central's mandate as liquidity manager for its member credit unions, short-term securities typically represent a great majority of its earnings assets, with loans to member credit unions comprising most of the remainder. During 2008, loans to credit unions increased as a result of the merger with CUCO but decreased as a percentage of total assets from last year's all-time high, and reflect Central's dual role as provider of short-term liquidity and longer-term oriented strategic funding to the system.

Credit union statutory liquidity deposits represent about 53.7 percent of Central's liabilities; non-statutory credit union deposits account for a further 24.7 percent; and external deposits, borrowings and other liabilities make up the remainder. Credit union loan demand has a direct impact on the composition of Central's balance sheet. With expansion of Central's capacity to lend to member credit unions, such loans have increased as a percentage of Central's assets. External borrowings by Central have become the primary source of their funding.

CHART 6 COMPARATIVE INTEREST INCOME & EXPENSE

December 31 (Millions of dollars)	2008			2007			2006		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
<b>Assets</b>									
Cash & Securities	\$ 4,256	\$ 170.69	4.01%	\$ 2,868	\$ 133.67	4.66%	\$ 2,466	\$ 103.15	4.18%
Deposits with regulated FIs	180	7.59	4.23%	288	14.50	5.04%	221	11.62	5.26%
Loans	1,967	74.81	3.80%	1,808	84.96	4.70%	1,703	73.04	4.29%
Total Earning Assets	6,403	253.09	3.95%	4,964	233.13	4.70%	4,390	187.81	4.28%
Other Assets	208	-	-	120	-	-	92	-	-
Total Assets	\$ 6,611	\$ 253.09	3.83%	\$ 5,084	\$ 233.13	4.59%	\$ 4,482	\$ 187.81	4.19%
<b>Liabilities and Equity</b>									
Notes	\$ 793	\$ 30.70	3.87%	\$ 927	\$ 43.93	4.74%	\$ 799	\$ 34.19	4.28%
Deposits									
Credit Union Statutory	3,588	128.12	3.57%	2,694	114.33	4.24%	2,413	94.88	3.93%
Credit Union Other	1,088	29.55	2.72%	581	23.67	4.08%	527	19.13	3.63%
Non Credit Union	561	15.41	2.75%	496	17.74	3.57%	446	13.78	3.09%
Subordinated Debt	50	2.21	4.38%	50	2.34	4.67%	2	0.07	4.67%
Total	6,080	205.99	3.39%	4,748	202.01	4.25%	4,187	162.05	3.87%
Other Liabilities	185	-	-	70	-	-	37	-	-
Members' Equity	346	-	-	266	-	-	258	-	-
Total Liabilities & Equity	\$ 6,611	\$ 205.99	3.12%	\$ 5,084	\$ 202.01	3.97%	\$ 4,482	\$ 162.05	3.62%
Interest Margin		\$ 47.10	0.71%		\$ 31.12	0.61%		\$ 25.76	0.57%
Trading Gains & Change in Fair Value		\$ (2.54)	(0.04)%		\$ 2.28	0.05%		\$ 1.47	0.03%

Central anticipates that financial markets will continue to present challenges and opportunities for financial margin in 2009. On the one hand, Central foresees that short-term interest rates will remain relatively low. System growth is anticipated to slow and high funding costs in the capital markets are likely to continue. On the other hand, the yield curve is expected to steepen and credit spreads will remain at high levels.

**Non-Interest Income and Non-Interest Operating Expenses**

Central provides an extensive range of financial and trade association services to its member credit unions, the majority of which are offered on a fee-for-service basis. In addition, a

number of key services of general benefit to the entire system are funded by dues assessments, while other activities are supported in whole or in part by fees.

Revenue generated by Central's non-interest sources is significant and, in gross terms, exceeds that derived from financial margin. However, the bulk of Central's non-interest expense is also associated with earning this revenue. The principal operations contributing to non-interest income are related to technology and payment services, which typically produce between 60 and 65 percent of the annual total. The remaining revenue is approximately evenly divided among member assessments and fees for services (Chart 7, page 44).

## MANAGEMENT'S DISCUSSION & ANALYSIS

CHART 7 NON-INTEREST INCOME & NON-INTEREST EXPENSE<sup>1</sup>

December 31 (Millions of dollars)	2008		2007		2006	
	Amount	% of Income	Amount	% of Income	Amount	% of Income
<b>Non-Interest Income</b>						
Membership Dues	\$ 7.29	9.9	\$ 4.57	8.7	\$ 3.90	7.8
Province-wide Advertising Assessment	2.50	3.4	2.44	4.6	2.44	4.9
<b>Trade Services</b>						
Operations Manual	1.01	1.4	1.04	2.0	1.03	2.1
Risk Management	2.60	3.5	1.94	3.6	1.71	3.4
Registered Plans	1.86	2.5	1.86	3.6	1.93	3.9
Other	4.02	5.4	3.53	6.7	3.23	6.5
Total Trade Services	9.49	12.8	8.37	15.9	7.91	15.9
<b>Financial Services</b>						
Treasury Services	2.96	4.0	0.98	1.9	1.08	2.2
Funding Services	2.83	3.8	1.36	2.6	1.11	2.2
Building Rental	1.04	1.4	1.34	2.6	1.44	2.9
Other	1.37	1.9	0.84	1.5	0.99	2.0
Total Financial Services	8.20	11.1	4.52	8.6	4.62	9.3
<b>Technology &amp; Payment Services</b>						
Processing	32.59	44.1	21.31	40.5	20.53	41.1
Technical Operations	2.15	2.9	1.97	3.7	1.77	3.5
Web Banking	11.67	15.8	9.49	18.0	8.75	17.5
Total Technology & Payment Services	46.41	62.8	32.77	62.2	31.05	62.1
Total Non-Interest Income	\$ 73.89	100.0	\$ 52.67	100.0	\$ 49.92	100.0
<b>Non-Interest Expense</b>						
Salaries & Benefits	\$ 39.51	53.5	\$ 29.78	56.5	\$ 26.72	53.5
Premises	6.59	8.9	4.02	7.6	5.01	10.0
Other	37.36	50.6	24.77	47.0	24.04	48.2
Total Non-Interest Expense	\$ 83.46	113.0	\$ 58.57	111.2	\$ 55.77	111.7

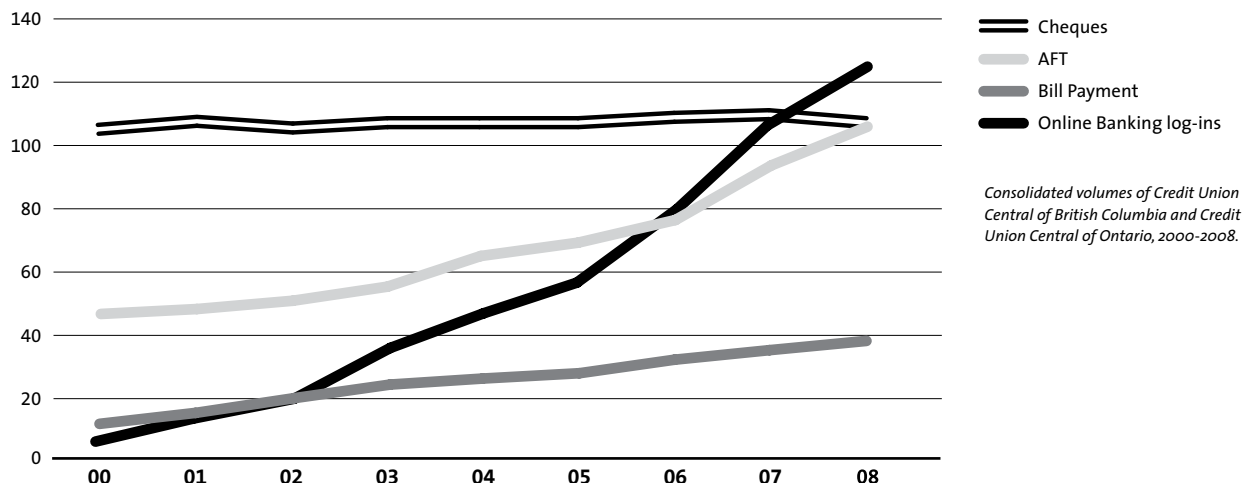
<sup>1</sup> Income from securities trading has been excluded. Certain items in 2007 and 2006 have been regrouped to be consistent with the 2008 categories of income and expense. Amounts and percentages may not total due to rounding.

Non-interest income was up 40.3 percent in 2008, reaching a record \$73.89 million compared to \$52.67 million last year. The primary source of this income was revenue from technology and payment services, which increased to \$46.41 million from \$32.77 million on the strength of increases in payment processing services and web banking revenues.

The volumes tracked in *Chart 8* illustrate the ascendancy of electronic payments, as well as the continuing

significance of Internet banking, which saw a 16.0 percent increase year-over-year in member log-ins. Electronic payments volumes, measured by bill payments and Automated Funds Transfer (AFT) transactions, increased by 11.4 percent in 2008, as a result of increased usage by member credit unions and the addition of new clients. Paper processing decreased 0.8 percent as the volumes generated by new business partners only partially offset the continued reduction in paper items processed.

CHART 8 LONG TERM TREND IN TECHNOLOGY AND PAYMENT PROCESSING VOLUMES (TRANSACTIONS, MILLIONS)



Central's technology and payment services group continued to expand and to diversify its clientele. Bill payment services, *MemberDirect*<sup>®</sup> Business Services and *MemberDirect*<sup>®</sup> Online Services are provided to a number of banks and trust companies. *MemberDirect*<sup>®</sup> Online Services – Central's proprietary Internet banking platform – has an approximately 80 percent share of the Canadian credit union market (calculated by number of members covered). Revenues from these operations grew 23.0 percent to \$11.67 million in 2008 from \$9.49 million a year earlier. Electronic transactions and Internet banking revenues are projected to continue to increase in 2009.

#### Net Income

Central posted record net income of \$26.56 million in 2008, an increase of 8.9 percent over 2007. Central remained relatively unscathed by the global crisis and, despite significant

reductions in the fair value of financial instruments, achieved unprecedented growth in overall revenues. (Chart 9)

Net interest and other income increased by \$31.22 million to a record level of \$117.35 million, primarily as a result of the merger with CUCO. Effective control over operating expenses supported the expanded revenue base with an increase of \$24.89 million, bringing the year's operating expenses to \$83.46 million, including \$2.47 million in integration costs related to the merger. As a result, income from operations was a record \$33.89 million, compared to \$27.56 million in 2007, before combination transaction costs of \$2.44 million (2007 – \$2.32 million) incurred prior to the July 1, 2008 close of the merger transaction.

Profitability ratios in 2007 were favourably impacted by a gain of \$4.33 million on the sale of rental property that was deemed to be non-essential to providing Central's core services.

CHART 9 NET INCOME

December 31 (Millions of dollars - %)	2008	2007	2006
Income before Taxes	\$ 31.45	\$ 29.57	\$ 20.59
Return on Average Assets	0.48%	0.58%	0.46%
Return on Average Share Capital	22.98%	26.09%	18.16%
Return on Average Equity	9.10%	11.10%	7.98%
Net Income	\$ 26.56	\$ 24.40	\$ 16.60
Return on Average Assets	0.40%	0.48%	0.37%
Return on Average Share Capital	19.41%	21.53%	14.64%
Return on Average Equity	7.69%	9.16%	6.43%

## MANAGEMENT'S DISCUSSION & ANALYSIS

### The Balance Sheet

The accompanying chart shows the average balances of

Central and the two provincial credit union systems, individually and combined, for the last three years (*Chart 10*).

CHART 10 (A) CENTRAL 1 CREDIT UNION – AVERAGE BALANCES

December 31 (Millions of dollars - %)	2008		2007		2006				
<b>Central 1 Credit Union</b>									
Cash & Liquid Assets	\$	4,620.8	69.9%	\$	2,868.3	56.4%	\$	2,465.9	55.0%
Deposits with Regulated FIs		179.6	2.7%		287.6	5.7%		221.0	4.9%
Loans		1,966.8	29.7%		1,807.7	35.6%		1,703.1	38.0%
External Debt		793.1	12.0%		927.3	18.2%		799.2	17.8%
Deposits		5,236.9	79.2%		3,771.0	74.2%		3,385.7	75.5%
Members' Equity		345.5	5.2%		266.4	5.2%		258.1	5.8%
<b>Average Total Assets</b>	\$	<b>6,611.3</b>		\$	<b>5,083.6</b>		\$	<b>4,481.9</b>	

CHART 10 (B) PROVINCIAL CREDIT UNION SYSTEMS – AVERAGE BALANCES

(Millions of dollars - % Average Assets)	2008 <sup>(a)</sup>		2007 <sup>(a)</sup>		2006				
<b>British Columbia Credit Union System</b>									
Cash & Liquid Assets	\$	4,874.5	11.2%	\$	4,548.9	11.2%	\$	4,409.1	11.9%
Other Assets		973.1	2.2%		915.8	2.2%		821.6	2.2%
Loans		37,516.3	86.5%		35,250.8	86.6%		31,734.2	85.8%
External Debt		2,870.1	6.6%		3,071.6	10.0%		2,349.8	6.4%
Deposits		37,034.4	85.4%		34,466.3	84.7%		31,742.1	85.9%
Members' Equity		2,488.3	5.7%		2,298.7	5.4%		2,119.3	5.7%
<b>Average Total Assets</b>	\$	<b>43,363.9</b>		\$	<b>40,715.5</b>		\$	<b>36,964.9</b>	

(Millions of dollars - % Average Assets)	30-Sep-08 <sup>(a)</sup>		2007		2006				
<b>Ontario Credit Union System</b>									
Cash & Liquid Assets	\$	2,661.21	13.8%	\$	2,451.84	13.5%	\$	2,374.31	13.9%
Other Assets		496.97	2.6%		456.78	2.5%		412.51	2.4%
Loans		16,134.55	83.6%		15,196.69	83.9%		14,157.35	82.8%
External Debt		522.22	2.7%		492.83	2.7%		421.58	2.5%
Deposits		17,413.37	90.3%		16,322.00	90.2%		15,455.58	90.4%
Members' Equity		1,357.14	7.0%		1,290.49	7.1%		1,225.91	7.2%
<b>Average Total Assets</b>	\$	<b>19,292.73</b>		\$	<b>18,105.31</b>		\$	<b>17,103.07</b>	

(Millions of dollars - % Average Assets)	2008 Estimate <sup>(a)</sup>		2007		2006				
<b>B.C. &amp; Ontario Systems Combined</b>									
Cash & Liquid Assets	\$	7,535.71	12.2%	\$	7,000.74	12.1%	\$	6,783.41	12.7%
Other Assets		1,470.07	2.4%		1,372.58	2.4%		1,234.11	2.3%
Loans		53,650.85	87.0%		50,447.49	87.1%		45,891.55	86.1%
External Debt		3,392.32	5.5%		3,564.43	6.2%		2,771.38	5.2%
Deposits		54,447.77	88.3%		50,788.30	87.7%		47,197.68	88.5%
Members' Equity		3,845.44	6.2%		3,589.19	6.2%		3,345.21	6.3%
<b>Average Total Assets</b>	\$	<b>61,685.53</b>		\$	<b>57,941.91</b>		\$	<b>53,314.27</b>	

<sup>1</sup> Certain system numbers in 2007 have been restated using audited figures.

<sup>2</sup> Average for 2008 is based on September 30, 2008 for the Ontario system and December 31, 2008 for the B.C. system. 2008 system numbers are unaudited.

There is a strong relationship between the balance sheets of Central and the system, as illustrated by the following examples:

- Member deposits are the principal funding source for individual credit unions and as deposits grow, total assets increase. Since the statutory liquidity that must be maintained with Central is a function of their liabilities, credit union deposits with Central will also increase, thus increasing Central's asset base.
- When credit unions experience strong loan demand, credit union liquidity that is surplus to their loan demand will tend to decrease; this tends to decrease their excess liquidity deposits with Central and increase their demand for loans from Central.

Solid deposit growth continued to fuel growth of member credit union assets, which, system-wide, increased by over 6.5 percent to exceed \$65.3 billion at year-end 2008. In turn, Central's assets also rose by 51.3 percent, year-over-year, to reach over \$8.5 billion with 43.6 percent of the increase attributable to the merger with CUCO and the remaining 7.7 percent reflecting credit union growth. (For more detailed commentary on the system's 2008 results, see *B.C. Credit Union System Performance*, page 37 and *Ontario Credit Union System Performance*, page 38) Central's assets consist primarily of liquid securities and fully secured loans to credit unions. The proportions of these fluctuate with the levels of liquidity in the system and the demand for loans from Central by its members.

Central's liabilities consist primarily of deposits from credit unions. Central has a mandatory source of funding through the regulatory requirement that B.C. credit unions maintain liquidity deposits with Central and through Liquidity Agreements with Ontario member credit unions.

Central supplements these mandatory deposits with deposits of excess liquidity from credit unions and deposits from organizations external to the system. Central accommodated loan demand from the system in 2008

primarily by accessing funds in the capital markets through loan securitizations and, to a lesser degree, through the issuance of commercial paper. As a consequence of ongoing turmoil in the financial markets during the year, the cost of raising funds through medium-term notes and private placements were not considered attractive for Central.

Central's lending function focuses on the provision of clearing lines and short- and mid-term loans to its member credit unions. All lending activities are closely integrated and coordinated with Central's liquidity management role. Credit line facilities, available in two currencies, are used to cover daily swings arising from the settlement of transactions. Short- and mid-term loans are used for cash management purposes, for balance sheet funding or for asset acquisitions. Additionally, capital market facilities are available for derivative transactions or for hedging purposes and letter of credit facilities are available for domestic and international transactions.

Except for loans to staff members, Central does not directly engage in residential or personal lending. Central also does not directly engage in the origination of commercial loans. It does have a small portfolio of syndicated commercial loans, which includes loans to related organizations and syndicated commercial loans acquired from the merger with CUCO. Central periodically acquires packages of mortgage loans from member credit unions to provide them with liquidity, for resale to other credit unions or for securitization. Most packages acquired by Central are usually held for short periods, pending resale to other credit unions or pending securitization. Central also grants residential mortgage and personal loans to staff members.

In addition to the \$2,428.4 million in loans outstanding as at December 31, 2008, Central had issued standby letters of credit of \$172.1 million on behalf of its members. As at year-end, Central had authorized, but unused, credit lines totaling \$2,894.5 million. At year-end 2007, Central had \$1,483.0 million in loans outstanding, and had issued \$693.8 million in standby letters of credit on behalf of its members; total authorized but unused credit lines were \$1,824.5 million. (*Chart 11*).

## Loans

CHART 11 LOANS

December 31 (Millions of dollars - % of total)	2008		2007		2006	
Total Credit Union Loans	\$ 2,241.9	92.3%	\$ 1,446.7	97.6%	\$ 1,384.5	97.9%
Non Credit Union Loans	186.5	7.7%	36.3	2.4%	29.7	2.1%
Total Loans Outstanding	\$ 2,428.4	100.0%	\$ 1,483.0	100.0%	\$ 1,414.2	100.0%
Average Total Loans	\$ 1,966.8		\$ 1,807.7		\$ 1,703.1	

## MANAGEMENT'S DISCUSSION & ANALYSIS

With the slow-down in residential real estate markets, year-end loan balances for the system reflected an estimated 4.1 percent year-over-year increase to \$54.6 billion, down from 9.4 percent in 2007. Although Central's average loans rose by 8.8 percent to \$1,966.8 million, the increase is mainly a result of the merger; average loans actually decreased as a percent of total average assets to 29.8 percent from last year's level of 35.6 percent.

With the decline in real estate markets projected to continue in 2009, system demand for lending is expected to weaken and, hence, the system's appetite to borrow from Central is expected to be moderate.

### Average Debt

During the year, Central's average total debt rose by \$1,230.4 million, compared to an increase of \$513.3 million in 2007 (Chart 12). This was primarily a result of increased member deposit balances, offset by a decrease in external borrowings. Central's regulatory borrowing multiple averaged 16.8:1 in 2008, up from 15.1:1 in 2007. Although both deposits and member equity increased significantly and in proportionate amounts during 2008, there was no change in the level of subordinated debt from the \$50 million note issued at the end of 2006. As the subordinated debt is included in regulatory capital as a Tier 2B qualifying capital instrument and the amount did not change during the year to support growth in deposits, the average borrowing multiple increased in 2008.

Central's target is to maintain a borrowing multiple between 16:1 and 18:1, which represents a balance between maintenance of a prudent capital reserve and the efficient use of capital.

### Statement of Cash Flows

Central had a net cash inflow from operating activities of \$18.0 million compared to an inflow of \$39.5 million in 2007, reflecting Central's higher net income for 2008 net of other cash flow adjustments. Cash inflows from financing activities decreased to \$196.7 million from an inflow of \$427.3 million in the previous year. Most of the decrease is directly related to Central's role as a liquidity manager and reflects the year-over-year growth in deposits, an increase in securities sold under repurchase agreements and a decrease in notes issued under the short-term commercial paper and medium-term note facilities that form part of system liquidity management. These funds are either invested in securities or loaned to member credit unions. Accordingly, cash outflows from investing activity totalled \$14.9 million and \$467.9 million in 2008 and 2007, respectively.

Overall cash resources at the end of the year increased by \$199.8 million, and this should be taken in the context of Central's role as a liquidity provider whose assets are primarily cash equivalents or readily marketable securities.

### Liquidity Management

Central is the prescribed liquidity manager for British Columbia's credit unions and the liquidity manager by contract for member credit unions in Ontario. Provincial regulations require that British Columbia credit unions maintain 8 percent (less up to 1 percent for cash balances) of their aggregate debt and other liabilities as deposits with Central. Excepted are credit unions for which 8 percent of aggregate deposits and other debt liabilities exceeds 1.5 percent of B.C. system assets; these credit unions are required to maintain deposits with Central

CHART 12 AVERAGE DEBT

December 31 (Millions of dollars - % of total)	2008		2007		2006	
Short-Term Unsecured Notes	\$ 412.6	7.0%	\$ 412.6	8.8%	\$ 352.8	8.4%
Mid/Long-term Unsecured Notes	279.1	4.7%	514.7	11.0%	446.4	10.7%
Non Credit Union Deposits	560.7	9.5%	496.6	10.6%	445.5	10.6%
Credit Union Deposits	4,676.2	78.8%	3,274.3	69.7%	2,940.2	70.3%
<b>Total Average Debt</b>	<b>\$ 5,928.6</b>	<b>100.0%</b>	<b>\$ 4,698.2</b>	<b>100.0%</b>	<b>\$ 4,184.9</b>	<b>100.0%</b>
Average Borrowing Multiple	16.8:1		15.1:1		16.2:1	
Credit Union Average Deposits As:						
% of Average System Liquid Assets	75.4%		72.0%		66.7%	
% of Average System Total Assets	8.8%		8.0%		8.0%	

equal to 1.5 percent of provincial system assets. There are currently two such credit unions, which, together, account for approximately 50 percent of total B.C. system assets. Notwithstanding regulatory requirements, these credit unions have agreed to maintain deposits with Central equal to at least 6 percent of their aggregate deposit and other debt liabilities.

Provincial regulations require that Ontario credit unions maintain 8 percent of their deposits and borrowings in cash and deposits with a prescribed financial institution. As a condition of membership, Ontario credit unions are required to enter into a Liquidity Agreement with Central. Under the terms of those agreements, member credit unions in Ontario must maintain deposits with Central equal to the greater of that required by Ontario provincial regulations, less cash on hand, and 6 percent of their assets.

Central's liquidity management framework is designed to ensure that reliable and cost-effective sources of cash are available to satisfy current and prospective commitments of the system, as well as Central's obligations under the NLFA. The primary components of this framework are

the maintenance of a large dedicated pool of marketable securities that can readily be converted to cash, ongoing access to diversified sources of wholesale funding, including those offered by the Bank of Canada to financial market participants, and participation in the NLFA (*Chart 13*). Under this agreement, participating central credit unions are required to keep liquid securities in the amount of 2 percent of their respective system's assets in segregated accounts under the management of CUCC. The securities may be used to provide liquidity to any one or more of the participating centrals.

#### **Cash and Liquid Securities**

Central's cash and pool of liquid securities are summarized by type in the accompanying chart (*Chart 14*). The credit quality and liquidity of the pool remains high, in keeping with Central's policies regarding liquidity management. As a percentage of system assets, Central's liquidity reserves, when measured by year-end balances, exceeded those of the previous year and remain well in excess of the NLFA requirement of 6 percent of system assets.

CHART 13 LIQUID ASSETS & BORROWING AUTHORIZATIONS

December 31 (Millions of dollars - % Systems Assets)	2008		2007		2006				
Cash & Liquid Assets	\$	5,431.3	8.3%	\$	3,810.3	8.9%	\$	3,465.9	8.9%
Short- & Long-Term Note Authorization		3,000.0	4.6%		3,000.0	7.0%		2,000.0	5.1%
Credit Lines		294.1	0.5%		290.0	0.7%		293.0	0.8%

CHART 14 CASH & LIQUID SECURITIES

December 31 (Millions of dollars)	2008		2007		2006				
<b>Cash &amp; Liquid Securities</b>									
Government & Guarantees	\$	1,285.9	23.7%	\$	387.0	10.2%	\$	333.8	9.6%
Corporate & Major Financial Institutions									
R-1 (Mid) or Greater		3,680.2	67.8%		3,336.4	87.6%		3,014.5	87.0%
Corporate – R-1 (Low)		465.2	8.5%		86.9	2.2%		17.6	3.4%
Total	\$	5,431.3	100.0%	\$	3,810.3	100.0%	\$	3,465.9	100.0%
% of System Y/E Assets		8.3%		8.9%		8.9%			
% of Central Y/E Assets		63.4%		67.3%		67.0%			

## MANAGEMENT'S DISCUSSION & ANALYSIS

### **Funding Strategy and Sources**

Diversification, which provides flexibility and minimizes concentration risk, and which, generally, lowers the cost of funds, is a crucial component of Central's overall liquidity management strategy. Central's primary funding source is deposits from credit unions, the majority of which are required by regulation. In October 2008, unlimited insurance on deposits at B.C. credit unions was introduced by the Province of British Columbia, replacing the previous \$100,000 limit. This change has contributed to an increase in B.C. credit union system liquidity and, in turn, in the liquidity of Central.

Central competes for credit union excess liquidity and, historically, holds most of this liquidity on behalf of the system. Supplementary to this core deposit base are Central's commercial paper and medium-term note programs and lines of credit with other financial institutions. During 2008, Central consistently issued commercial paper at attractive interest rates and spreads to money market instruments offered by Canada's largest chartered banks. Central did not issue any new medium-term notes, as other sources of funding were more cost effective. As part of its mandate to provide liquidity to market participants, the Bank of Canada in 2008 expanded the scope, size and frequency of its term Purchase and Resale Agreements (PRA) facilities. By virtue of its participation in the CUCC group clearing arrangement, Central now has the ability to obtain funds from these facilities for terms of 30-to-90 days against the pledge of eligible securities.

On October 23, 2008 the Government of Canada announced the creation of the Canadian Lenders Assurance Facility (CLAF). The Facility is a component of Canada's implementation of the G7 Plan of Action to stabilize financial markets, restore the flow of credit and support global economic growth. It will be available, on a voluntary basis, to all federally-regulated deposit-taking financial institutions, including Central. The CLAF will make available government insurance of up to three years, on commercial terms, for borrowings by banks and other qualifying deposit-taking institutions. This initiative will help secure access to longer-term funds so that Canadian financial institutions can continue lending to consumers, homebuyers and businesses in Canada. Central has made application for the CLAF, should Central or its member credit unions require term funding later in 2009.

The system uses asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes. In 2008, the federal Department of Finance announced that the Canada Mortgage Housing Corporation (CMHC) would begin

purchasing NHA residential mortgage-backed securities through a series of auctions as a means of providing liquidity to financial markets. Central is a participant in these auctions on behalf of its member credit unions. See the discussion under *Off-Balance Sheet Arrangements* (page 53) for more details on the system's securitization activities.

Central's ability to access unsecured funding from capital markets and the cost of such funds primarily depends on its ongoing maintenance of acceptable credit ratings. This, in turn, is largely determined by the quality of Central's and the system's earnings.

As part of its commitment to actions that support the strength of its credit ratings, Central measures and monitors both its own and the system's liquidity condition from structural, tactical and contingent viewpoints.

### **Structural Liquidity Risk Management**

Each credit union is unique by virtue of its local ownership, its geographical market, and its operating philosophy. Consequently, the liquidity position of individual credit unions varies widely, as would that of individual bank branches if viewed in isolation. However, credit unions are distinct legal entities and are not permitted under provincial legislation to lend to one another. Central, however, may lend to its member credit unions. Hence, it is the mechanism by which liquidity is redeployed throughout the system.

Central constantly monitors and assesses the liquidity requirements of the system in light of current and forecast economic conditions. This allows Central to identify potential liquidity imbalances and to take corrective action through its liquidity management framework.

### **Tactical Liquidity Risk Management**

Tactical liquidity risk management addresses the normal day-to-day funding requirements of Central and the system. Central has imposed limits on projected net fund outflows for specified short-term periods and on the minimum degree of liquidity inherent in its pool of marketable securities. Central also has minimum funding coverage ratios on the lines of credit granted to its members.

### **Contingent Liquidity Risk Management**

Central recognizes the need to plan for an event of general market disruption or adverse economic conditions that could affect Central's ability to meet its commitments. In such an event, all of Central's pool of marketable securities would be available for this purpose. In addition, Central has access to additional liquid securities from other provincial central credit unions under the NLFA.

## CONTRACTUAL OBLIGATIONS

The accompanying chart summarizes Central's contractual financial obligations for each of the next five years and thereafter (*Chart 15*). Almost all of the obligations are incurred in Central's role as a liquidity manager and consist of member deposits or short- and long-term notes. Most of these obligations are either required to be renewed with Central by regulation or are anticipated to be re-deposited with Central.

## CAPITAL MANAGEMENT AND CAPITAL RESOURCES

Central's strong capital base contributes to its safety, cultivates strong investor confidence, supports its high credit ratings and allows it to keep pace with system growth.

Central's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) and provincial regulations administered by FICOM. 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 in British Columbia, 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. Ontario provincial regulations, which apply to credit unions in Ontario, also use a similar risk-weighted approach to capital adequacy along with the requirement that the ratio of regulatory capital to total assets be at least 5 percent. 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 B.C. credit unions to risk-weight their deposits with Central at zero percent.

In March 2005, the Capital Requirements Regulation, which applies to credit unions in British Columbia, including Central, was amended to reflect many of the revisions endorsed by the Basel Committee on Banking Supervision, commonly referred to as Basel II. Most significantly, the risk-weighting of residential mortgages was reduced to 35 percent from 50 percent and the standardized variable risk-weighting approach to debt instruments, which is based on credit ratings, was adopted. The capital ratios reported for Central as at December 31 for the years 2005 – 2008 reflect these regulatory changes. They are not incorporated in data for earlier years. ( See *Ten-Year Summary, Central 1 Credit Union*, page 56.)

Central targets an operating borrowing multiple of between 16:1 and 18:1 to ensure that it has the capacity to absorb sudden increases in system deposits or to increase external borrowings to meet member demand for funds. A three-year comparison of Central's capital adequacy, measured under both provincial and federal regulations, shows continued strong levels of capital and strong management performance in operating within regulated levels (*Chart 16; Chart 17*, page 52.). At the end of 2008, Central's borrowing multiple, while within regulatory requirements, exceeded the upper range of Central's internal target. This was primarily due to two factors: an increase in deposits by member credit unions in the fourth quarter; and market volatility that resulted in an increase in required deductions from capital for regulatory purposes. While these factors are anticipated to reverse in the first quarter of 2009, Central fully intends to ensure that its borrowing multiple will remain within its internal target range.

CHART 15 CONTRACTUAL OBLIGATIONS

<i>December 31 (Millions of dollars)</i>	Less than 1 Year	1 to 3 Years	3 to 5 Years	Greater than 5 Years	Total
Debt – Outstanding	\$ 5,929.1	\$ 681.0	\$ 758.1	–	\$ 7,368.2
Operating Leases	0.9	1.0	–	–	1.9
Other Long-Term Obligations <sup>(1)</sup>	80.0	60.0	–	–	140.0
	\$ 6,010.0	\$ 742.0	\$ 758.1	–	\$ 7,510.0

(1) Obligations to accept deposits from members at future dates.

## MANAGEMENT'S DISCUSSION & ANALYSIS

CHART 16 RISK-ADJUSTED ASSETS

December 31 (Millions of dollars)	Conversion Factor	Risk Weight	2008		2007		2006	
			Gross Assets	Risk Adjusted	Gross Assets	Risk Adjusted	Gross Assets	Risk Adjusted
<b>On-balance Sheet</b>								
Cash	-	0-20%	\$ 228.4	\$ 11.6	\$ 28.5	\$ 5.7	\$ 29.7	\$ 5.9
Securities	-	0-100%	5,313.6	1,201.7	3,753.7	1,002.1	3,237.4	849.4
Deposits with regulated FIs		0-100%	126.5	25.3	211.1	42.2	387.6	85.6
Loans		20-100%	2,425.9	617.8	1,483.0	315.0	1,416.0	295.7
Other		0-100%	463.4	399.4	185.9	99.0	106.4	57.8
			<b>8,557.8</b>	<b>2,255.8</b>	5,662.2	1,463.9	5,177.1	1,294.4
<b>Off-balance Sheet</b>								
Derivatives	0-0.5%	0-100%	220.9	44.2	60.0	12.0	60.6	12.1
Credit Commitments	-	1-50%	1,836.4	0.0	1,824.5	0.0	1,531.0	0.0
Guarantees & Letters of Credit	-	20-50%	249.2	49.9	695.4	139.1	633.9	126.8
			<b>2,306.5</b>	<b>94.1</b>	2,580.0	151.1	2,222.5	138.9
<b>Total Risk-Weighted Assets</b>			<b>\$ 10,864.3</b>	<b>\$ 2,349.9</b>	\$ 7,650.6	\$ 1,615.0	\$ 7,402.6	\$ 1,433.3
Capital Base				\$ 456.4		\$ 336.2		\$ 319.7
Capital as % of Risk-Weighted Assets				<b>19.5%</b>		20.8%		22.3%
Borrowing Multiple				<b>18.1:1</b>		16.2:1		15.2:1

CHART 17 RISK-ADJUSTED ASSETS

December 31 (% of Risk-Adjusted to Total Risk-Adjusted Assets)	3 Year Average	2008	2007	2006
Converted Value of On-Balance Sheet Assets	92.3%	<b>96.0%</b>	90.6%	90.3%
Converted Value of Off-Balance Sheet Assets	7.7%	<b>4.0%</b>	9.4%	9.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Central's share capital, with the exception of nominal amounts, is entirely held by its Class A members, which, collectively, comprise the B.C. and Ontario credit union systems. Central's Rules permit it to unconditionally require its Class A members to increase their investment in its share capital. Central's policy requires an annual adjustment of Class A share capital subscriptions so that member credit unions contribute Class A share capital in proportion to their assets (Chart 18).

Through 1997-2005, strong earnings and prudent dividend policies allowed Central to maintain its capital ratios solely through internal capital generation in the form of retained earnings and, in 2004, a share call on member credit unions

of \$7.9 million. In 2006, Central diversified its sources of capital by issuing \$50.0 million in Tier 2B capital to a group of investors in the form of subordinated debt. In 2008, as a result of the merger with CUCO, Central issued \$49.3 million of Class A shares to its Ontario member credit unions and a total of \$29,000 of Class E shares to B.C. and Ontario member credit unions. (See Notes 3 and 18 to the financial statements.) As part of the transaction, Central recognized \$87.90 million of contributed surplus.

Central does not have any significant or material commitments for capital expenditures. Capital expenditures are minimal given the nature of Central's business and are financed internally from earnings.

CHART 18 SOURCES OF CAPITAL

December 31 (Millions of dollars - % of total)	2008	% Total	2007	% Total	2006	% Total
Share Capital	\$ 162.6	33.3%	\$ 113.4	34.3%	\$ 113.4	36.2%
Contributed Surplus	87.9	18.0	0	0	0	0
Retained Earnings	188.0	38.5	167.2	50.6%	149.4	47.8%
Subordinated Debt	50.0	10.2	50.0	15.1%	50.0	16.0%
Total Capital	\$ 488.7	100.0%	\$ 330.6	100.0%	\$ 312.8	100.0%
Percentage Increase in Retained Earnings	12.5%		11.9%		6.5%	

#### OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Central is involved with off-balance sheet arrangements, which fall into three main categories: securitization, derivative financial instruments and guarantees.

#### Loan Securitizations

Credit unions periodically securitize residential mortgage loans to diversify their funding sources and enhance their liquidity positions. As the rated entity in the credit union system, Central plays a pivotal role in loan securitization on behalf of member credit unions. Central and its member credit unions have securitized these loans either through ABCP conduits sponsored by major Canadian bank-owned dealers or through the Canada Mortgage Bond Program, which is sponsored by Canada Mortgage Housing Corporation, a federal crown corporation. Most recently, Central has participated in the Insured Mortgage Purchase Program (IMPP). Under the IMPP, CMHC purchases securities composed of pools of insured residential mortgages from Canadian financial institutions. These are high-quality assets that are backed not only by the overall strength of Canada's housing market, but also by the Government's own guarantee of the insured mortgages. (See Note 13 to the financial statements.)

The financial risks to Central in these activities form part of the fully-secured credit arrangements that Central has with member credit unions. Central may, but is not obligated to, provide additional credit enhancement, through the purchase of investment grade rated subordinated notes issued by a special purpose entity. As at December 31, 2008, Central

held \$50.6 million of such notes. Central is not aware of any circumstances that could require Central to fund or purchase any of the securitized assets other than as described above.

The accompanying chart provides details of assets securitized by the system through Central outstanding at year end (Chart 19).

The disintermediation of the financial services industry has increased demand for securitization by most financial institutions, including credit unions. The extent of securitization of system assets is also subject to economic cycles. Securitization of residential mortgages by credit unions increased during 2007 and 2008, as they continued to use off-balance sheet vehicles to finance strong loan demand. However, the abrupt slowdown in real estate markets in 2008 has dampened the demand for residential mortgage securitizations.

In mid-August 2007 the Canadian ABCP markets experienced severe disruptions that have effectively shut-off, *inter alia*, access to commercial paper securitization conduits. In 2008, private sector term asset backed markets were also non-existent. It is not known if and when markets will return to normalcy. However, the Canada Mortgage Bond Program and the aforementioned IMPP auctions remain open and provide a very cost-effective alternative for the securitization of credit union mortgages, which represent over 60 percent of credit union assets.

#### Derivative Financial Instruments

Derivatives are primarily used in the asset/liability management activities of Central and the system. Central structures and sells derivative products to member credit unions mainly to enable them to transfer, modify or reduce

CHART 19 ASSETS SECURITIZED THROUGH CENTRAL

(Billions of dollars - % of system assets)	2008	%	2007	%	2006	%
Total outstanding at year end	\$ 4.70	7.2	\$ 4.16	6.8	\$ 3.46	6.1

## MANAGEMENT'S DISCUSSION & ANALYSIS

interest rate risk. Central, by virtue of its size and credit ratings, provides credit unions with cost-effective access to the wholesale derivative markets on a "mirrored" basis by serving as an intermediary. Central also acts as a swap counterparty on behalf of its member credit unions. Central uses derivatives extensively in the management of its own balance sheet and also maintains a relatively small trading portfolio of derivative instruments.

Derivative contracts give rise to counterparty credit risk, which is managed within the context of Central's overall credit risk policies. The credit exposure of derivative contracts as measured by risk-adjusted credit equivalents is presented in *Chart 16*, page 52. The fair value of derivative positions is presented in *Note 30* to the financial statements.

### Guarantees

Central, as the primary rated entity within the system, issues guaranteed products to member credit unions or on behalf of their members to help them meet their financing needs. Significant types of such products are financial standby letters of credit, performance guarantees and certain liquidity facilities. In addition to guarantees, Central makes commitments to its members to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, letters of credit and capital market facilities. *Chart 16*, page 52, provides a summary of Central's off-balance sheet commitments.

### PROPOSED TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

There were no material transactions in 2008 with related parties, nor are there any contemplated at this time. There are no proposed transactions that would have a material effect on financial conditions, results of operations or cash flows of Central or its subsidiaries, other than the merger with CUCO, which was completed on July 1, 2008.

### SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

#### Quarterly Results

Central's financial results for each of the eight most recently completed quarters are summarized in the accompanying chart. Trading gains and losses and holding gains and losses have a significant impact on quarterly net income – and their timing and magnitude are not predictable. Therefore, these are shown in the chart separately from "Other Income". In general, however, Central's net interest income is quite stable from quarter to quarter, with no discernable seasonal trend; this reflects the condition of prevailing financial markets. Non-interest expenses for the fourth quarter tend to be higher than those of other quarters, in part due to non-recurring items, but also due to the timing and recognition of certain expenses.

CHART 20 CENTRAL 1 CREDIT UNION – QUARTERLY EARNINGS

<i>(Millions of \$, except as indicated)</i>	2008				2007			
	Period Ended				Period Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Total Interest Income	\$ 58,278	\$ 51,374	\$ 71,191	\$ 72,239	\$ 53,458	\$ 55,084	\$ 60,306	\$ 64,278
Total Interest Expense	49,526	42,017	57,444	57,000	46,233	47,716	52,655	55,401
Net Interest Income	8,752	9,357	13,747	15,239	7,225	7,368	7,651	8,877
Gains on disposal of financial instruments	6,297	4,188	3,352	11,416	(113)	1,270	2,243	4,367
Changes in fair value of financial instruments	(7,321)	(1,376)	(15,896)	(3,176)	591	259	(1,481)	(4,861)
Recovery (provision) for credit losses		34	(316)	(823)		29		28
Non-Interest Income	14,008	15,367	20,986	23,524	12,514	13,319	12,900	13,941
Non-Interest Expenses	(15,448)	(16,174)	(23,483)	(28,353)	(13,871)	(14,789)	(14,382)	(15,731)
Unusual Items	(290)	(2,150)	0	0	(332)	(592)	3,711	(772)
Income Taxes	(1,023)	(1,465)	340	(2,751)	(1,107)	(1,205)	(1,689)	(1,168)
Net Income	\$ 4,975	\$ 7,781	\$ (1,270)	\$ 15,076	\$ 5,107	\$ 5,659	\$ 8,953	\$ 4,681
Weighted Average Shares Outstanding	113.40	113.40	157.66	162.58	113.35	113.35	113.35	113.35
Earnings per Share* (cents)	4.39	6.86	(0.81)	9.28	4.50	4.99	7.90	4.13
Earnings per Share fully diluted (cents)	4.39	6.86	(0.81)	9.28	4.50	4.99	7.90	4.13

#### **Fourth Quarter 2008**

Net interest income for the fourth quarter of \$15.24 million was the highest of any quarter in 2008 and well above that for the same period last year. Decreases in short-term interest rates and higher credit spreads continue to have a positive impact on Central's financial margin due to the asset/liability profile of Central's balance sheet. Net income of \$15.08 million for the quarter was significantly higher than the \$4.68 million achieved in 2007. However, non-interest expense for the fourth quarter in both 2008 and 2007 was adversely affected by non-recurring items: merger integration costs and specific provisions for loan losses, respectively.

#### **CRITICAL ACCOUNTING ESTIMATES**

Central's operating results and its financial condition are reported using accounting policies and methods in accordance with Canadian generally accepted accounting principles (GAAP). In certain cases, GAAP provides for alternative methods and policies, which, while reasonable, may produce different amounts.

Management exercises judgment in applying accounting policies to ensure they are GAAP compliant and reflect the most appropriate way to report Central's financial condition and results of operations. Significant accounting policies are described in *Note 3* to the financial statements.

Central has established procedures to ensure that accounting policies are applied on a consistent basis. Changes in accounting processes or methodologies are controlled and implemented in a systematic manner. Central's critical accounting policies are reviewed by the Audit Committee on a periodic basis.

In preparing Central's 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 post-retirement benefits, require management to make subjective or complex judgments.

#### **Future Accounting and Reporting Changes**

Central expects to adopt the following accounting standards in preparing its financial statements in the future. *Note 5* to the consolidated financial statements contains more information regarding future accounting and reporting changes.

Effective January 1, 2009, Central will adopt EIC-173 – *Credit Risk and the Fair Value of Financial Assets and Liabilities* — which clarifies that an entity's own risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial instruments, including derivative instruments. This EIC will be applied retrospectively without

restatement of prior periods. The nature and timing of changes required to Central's financial statements as a result of implementing EIC-173 cannot be determined at this time.

The Canadian Institute of Chartered Accountants (CICA) has announced its intention to harmonize Canadian GAAP with International Financial Reporting Standards (IFRS), effective for Central's 2011 fiscal year. The nature and timing of changes required to Central's financial statements as a result of implementing IFRS cannot be determined at this time.

#### **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**

For operations in B.C., 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, 2008. 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 six-month period ended December 31, 2008, for operations in Ontario. However, Central does not anticipate any significant deficiencies in the design of these controls.

# TEN-YEAR SUMMARY<sup>1</sup>

Central 1 Credit Union

(Millions of dollars unless otherwise indicated)	5-Year Average	10-Year Average	2008	2007
<b>AT THE YEAR ENDS</b>				
<b>Assets</b>				
Cash			228.38	28.53
Securities			5,313.64	3,753.66
Amounts on deposits with regulated financial institutions <sup>2</sup>			126.47	211.06
Loans			2,425.95	1,482.98
Other			463.34	185.95
<b>Total Assets</b>			<b>8,557.78</b>	<b>5,662.18</b>
<b>Liabilities</b>				
Notes			526.22	968.77
Non Credit Union Deposits			3,041.71	326.90
Credit Union Deposits			3,896.48	3,896.48
Other			608.09	150.44
			8,072.50	5,342.59
<b>Subordinated Debt</b>			<b>50.68</b>	<b>49.67</b>
<b>Members' Equity</b>				
Share capital			162.58	113.35
Contributed Surplus			87.90	-
Retained Earnings			188.06	167.15
Accumulated Other Comprehensive Income			(3.94)	(10.58)
			434.60	269.92
<b>Total Liabilities and Members' Equity</b>			<b>8,557.78</b>	<b>5,662.18</b>
<b>For The Year Ended</b>				
<b>Interest Income</b>				
Securities			170.69	133.67
Amounts on Deposit with regulated financial institutions			7.59	14.50
Loans			74.81	84.96
			253.09	233.13
<b>Interest expense</b>				
Notes			30.70	43.92
Deposits			173.08	155.74
Subordinated Debt			2.21	2.35
			205.99	202.01
<b>Interest Margin</b>				
Gains on disposal of financial instruments			47.10	31.12
Change in fair value of financial instruments			25.23	7.77
Net financial income			(27.77)	(5.49)
(Recovery) provision for credit losses			44.56	33.40
			1.10	(0.06)
			43.46	33.46
<b>Other Income</b>				
Net interest and other income			73.89	52.67
Operating Expenses			117.35	86.13
Income from operations before unusual items			83.46	58.57
Unusual items			33.89	27.56
Income before Income Taxes			(2.44)	2.01
Income Taxes			31.45	29.57
Net Income			4.89	5.17
			26.56	24.40
<b>Statistical</b>				
Average Assets	4,855.34	4,082.52	6,611.28	5,083.59
Average Cash, Securities and Amounts on Deposit with regulated financial institutions	3,239.04	2,976.44	4,435.83	3,155.91
Average Loans	1,522.91	1,048.67	1,966.80	1,807.72
Average Debt	4,477.67	3,780.46	6,029.92	4,698.24
Average Subordinated Debt	20.42	10.21	50.50	50.10
Gross Income	239.29	214.09	326.98	285.80
Interest Income	186.85	167.47	253.09	233.13
Interest Expense	157.64	141.81	205.99	202.01
Interest Margin	29.21	25.67	47.10	31.12
Net Income	18.35	16.78	26.56	24.40
<b>As A Percent Of Average Assets</b>				
Average Cash & Securities and Amounts on Deposit	67.06%	74.59%	67.09%	62.08%
Average Loans	31.20%	24.21%	29.75%	35.56%
Average Debt	92.31%	92.65%	91.21%	92.42%
Average Subordinated Debt	0.36%	0.18%	0.76%	0.99%
Gross Income	4.88%	5.32%	4.95%	5.62%
Interest Income	3.80%	4.17%	3.83%	4.59%
Interest Expense	3.22%	3.54%	3.12%	3.97%
Interest Margin	0.59%	0.63%	0.71%	0.61%
Interest Margin and gains on disposal of financial instruments	0.64%	0.73%	0.66%	0.66%
Net Income before Taxes	0.45%	0.52%	0.48%	0.58%
Net Income	0.37%	0.41%	0.40%	0.48%
<b>Yields / Costs</b>				
Cash, Securities and Amounts on deposit with regulated financial institutions	3.97%	4.29%	4.02%	4.70%
Loans	3.62%	4.02%	3.80%	4.70%
Deposits & Notes	3.47%	3.81%	3.38%	4.25%
<b>Returns on Average:</b>				
Assets	0.37%	0.41%	0.40%	0.48%
Capital	15.46%	14.93%	19.41%	21.53%
Equity	6.61%	7.16%	7.69%	9.16%
<b>Returns on Average:</b>				
Assets (before taxes & dividends)	0.45%	0.52%	0.48%	0.58%
Capital (before taxes & dividends)	18.88%	18.50%	22.98%	26.09%
Equity (before taxes & dividends)	8.07%	8.91%	9.10%	11.10%
<b>Dividends as % Year-End Capital</b>				
Debt/Equity Ratio	6.03%	6.84%	4.10%	8.35%
Dividends Per Share (cents)	16.68	16.66	16.63	16.72
Average Deposits	6.03	6.84	4.10	8.35
Average Notes	3,824.24	3,371.81	5,236.87	3,770.98
Average Capital	626.59	395.24	793.05	793.05
Average Equity	117.27	111.38	136.87	113.35
Dividends (millions)	273.19	234.67	345.53	266.36
	7.24	7.65	6.67	9.46

1 Information presented above for fiscal years 2006 and 2005 has been reclassified to conform to Central's 2007 financial statements presentation. Information presented for the years 1998 through 2004 has not been reclassified.

2 In 2006, Central reclassified amounts on deposit with regulated financial institutions from securities. Comparative amounts for 2005 and 2004 have been reclassified to reflect this change, but amounts prior to 2004 have not been reclassified.

	2006	2005	2004	2003	2002	2001	2000	1999
	29.61	65.66	50.53	13.36	40.78	9.61	40.98	14.79
	3,236.83	3,331.21	3,271.97	3,469.87	3,175.50	3,228.79	3,070.94	2,585.67
	387.60	396.27	299.25	-	-	-	-	-
	1,416.04	787.43	745.29	436.81	360.95	458.30	256.68	338.14
	107.01	103.43	57.60	35.20	48.28	60.11	72.18	50.71
	5,177.09	4,684.00	4,424.64	3,955.24	3,625.51	3,756.81	3,440.78	2,989.31
	755.83	350.61	371.70	371.43	188.14	209.90	205.96	127.90
	389.90	323.08	321.90	208.24	137.02	247.40	207.53	125.40
	3,484.81	3,666.35	3,421.21	3,082.81	3,020.45	3,064.06	2,796.61	2,538.79
	233.94	90.28	64.43	62.31	74.29	35.56	41.75	14.80
	4,864.48	4,430.32	4,179.24	3,724.79	3,419.90	3,556.92	3,251.85	2,806.89
	49.81	-	-	-	-	-	-	-
	113.36	113.35	113.35	105.49	105.49	105.49	105.49	105.49
	-	-	-	-	-	-	-	-
	149.44	140.33	132.05	124.96	100.12	94.40	83.44	76.93
	-	-	-	-	-	-	-	-
	262.80	253.68	245.40	230.45	205.61	199.89	188.93	182.42
	5,177.09	4,684.00	4,424.64	3,955.24	3,625.51	3,756.81	3,440.78	2,989.31
	103.15	100.82	97.03	117.45	103.25	140.25	144.57	114.44
	11.62	4.92	0.52	-	-	-	-	-
	73.04	32.97	23.95	21.99	22.34	23.87	28.08	24.27
	187.81	138.71	121.50	139.44	125.59	164.12	172.65	138.71
	34.19	12.62	7.54	7.64	5.39	7.24	8.57	3.76
	127.79	103.56	94.42	106.73	101.61	133.03	140.87	115.05
	0.07	-	-	-	-	-	-	-
	162.05	116.18	101.96	114.37	107.00	140.27	149.43	118.81
	25.76	22.53	19.54	25.07	18.59	23.85	23.22	19.89
	0.68	4.65	5.09	5.84	8.77	5.64	1.13	1.31
	0.79	(0.27)	0.36	0.07	0.00	-	-	-
	27.23	26.91	24.99	30.98	27.36	29.49	24.35	21.20
	0.79	0.00	0.32	0.00	0.00	(2.61)	(0.80)	(0.80)
	26.44	26.91	24.67	30.98	27.36	32.10	25.15	22.01
	49.92	43.68	42.03	42.26	38.62	36.36	36.03	33.86
	76.36	70.59	66.70	73.24	65.98	68.46	61.18	55.87
	55.60	54.19	52.82	51.17	49.19	46.70	41.08	40.97
	20.76	16.40	13.88	22.07	16.79	21.76	20.10	14.91
	(0.17)	-	-	-	-	-	-	-
	20.59	16.40	13.88	22.07	16.79	21.76	20.10	14.91
	3.99	3.20	2.87	4.34	3.02	4.28	4.70	3.36
	16.60	13.20	11.01	17.73	13.77	17.48	15.40	11.54
	4,481.92	4,210.80	3,889.10	3,725.29	3,544.98	3,351.28	3,121.76	2,805.24
	2,686.89	3,032.48	2,884.10	3,038.70	2,750.29	2,807.49	2,633.48	2,339.28
	1,703.14	1,151.70	985.21	665.50	776.25	519.32	466.18	444.90
	4,184.91	3,889.71	3,585.59	3,461.80	3,318.54	3,144.45	2,890.34	2,601.14
	1.50	-	-	-	-	-	-	-
	237.73	182.39	163.53	181.70	172.98	206.12	209.81	173.90
	187.81	138.71	121.50	139.44	125.58	164.12	172.65	138.71
	162.05	116.18	101.96	114.37	107.00	140.27	149.43	118.81
	25.76	22.53	19.54	25.07	18.59	23.85	23.22	19.89
	16.60	13.20	11.01	17.73	13.77	17.48	15.40	11.54
	59.95%	72.02%	74.16%	81.53%	77.58%	83.77%	84.36%	83.39%
	38.00%	27.35%	25.33%	17.90%	21.90%	15.50%	14.93%	15.86%
	93.37%	92.37%	92.20%	92.13%	93.61%	93.83%	92.59%	92.72%
	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	5.30%	4.33%	4.20%	4.88%	4.88%	6.15%	6.72%	6.20%
	4.19%	3.29%	3.12%	3.74%	3.54%	4.90%	5.53%	4.94%
	3.62%	2.76%	2.62%	3.07%	3.02%	4.19%	4.79%	4.24%
	0.57%	0.54%	0.50%	0.67%	0.52%	0.71%	0.74%	0.71%
	0.59%	0.64%	0.63%	0.83%	0.77%	0.96%	0.81%	0.78%
	0.46%	0.39%	0.36%	0.59%	0.47%	0.65%	0.64%	0.53%
	0.37%	0.31%	0.28%	0.48%	0.39%	0.52%	0.49%	0.41%
	4.27%	3.49%	3.38%	3.87%	3.75%	5.00%	5.49%	4.89%
	4.29%	2.86%	2.43%	3.13%	2.88%	4.60%	6.02%	5.46%
	3.87%	2.99%	2.84%	3.30%	3.22%	4.46%	5.17%	4.57%
	0.37%	0.31%	0.28%	0.48%	0.39%	0.52%	0.49%	0.41%
	14.64%	11.65%	10.06%	16.80%	13.06%	16.57%	14.60%	10.94%
	6.43%	5.18%	4.56%	8.08%	6.79%	8.99%	8.29%	6.46%
	0.46%	0.39%	0.36%	0.59%	0.47%	0.65%	0.64%	0.53%
	18.16%	14.47%	12.68%	20.92%	15.92%	20.62%	19.05%	14.13%
	7.98%	6.44%	5.75%	10.06%	8.28%	11.19%	10.83%	8.35%
	8.02%	5.39%	4.29%	5.75%	9.11%	7.69%	11.00%	4.69%
	15.56	17.46	17.03	16.16	16.63	17.79	17.21	15.39
	8.02	5.39	4.29	5.75	9.11	7.69	11.00	4.69
	3,385.72	3,451.87	3,275.78	3,216.90	3,122.69	2,983.86	2,742.22	2,531.17
	799.19	437.84	309.81	244.90	195.85	160.58	148.11	69.97
	113.35	113.34	109.46	105.50	105.46	105.51	105.49	105.49
	258.02	254.65	241.39	219.37	202.70	194.46	185.67	178.57
	9.09	6.11	4.86	6.07	9.61	8.11	11.60	4.95

# FIVE-YEAR SUMMARY

British Columbia System

As at December 31 <sup>1</sup> (millions of dollars)	2008	2007	2006	2005	2004
Cash & Central 1 Operating Account	453.39	371.28	351.44	337.69	366.70
Investments					
Liquid	5,857.40	4,607.21	4,473.19	5,229.60	5,156.71
Other	116.62	122.57	122.21	119.26	118.19
Loans <sup>2</sup>	38,016.60	36,721.44	33,215.62	29,647.29	26,002.75
Other	1,007.04	767.74	750.52	685.95	650.99
<b>Total Assets</b>	<b>45,451.05</b>	<b>42,590.24</b>	<b>38,912.98</b>	<b>36,019.79</b>	<b>32,295.34</b>
Borrowed Funds	2,931.39	3,029.26	2,166.16	1,245.36	1,268.79
Members' Deposits	38,940.08	36,298.70	33,644.65	32,012.40	28,520.04
Non-Equity Shares	63.50	87.15	105.93	111.03	108.51
Retained Earnings & Equity Shares	2,454.80	2,260.68	2,113.30	1,931.34	1,720.84
Payables & Other	1,061.28	914.45	882.94	719.66	677.16
<b>Total Liabilities</b>	<b>45,451.05</b>	<b>42,590.24</b>	<b>38,912.98</b>	<b>36,019.79</b>	<b>32,295.34</b>
<b>For the Year Ended</b>					
Average Assets	43,363.91	40,715.52	36,964.79	32,910.37	29,996.76
Average Liquidity	4,874.53	4,548.94	4,409.09	4,365.55	4,136.14
Average Loans	37,516.33	35,250.77	31,734.22	27,759.26	25,097.68
Average Deposits	37,034.39	34,466.34	31,742.14	28,777.54	26,402.87
Financial Margin	1,038.10	975.33	940.30	885.34	818.86
Non-Financial Income	321.45	291.64	294.91	281.62	303.63
Non-Financial Expense	1,016.64	978.61	941.18	874.90	834.13
Net Loan Loss Expense	51.32	31.47	34.11	27.27	33.22
Net Operating Income	291.60	256.89	259.91	264.79	255.15
Income Taxes	56.83	40.67	35.11	38.52	41.15
<b>Net Income</b>	<b>234.76</b>	<b>216.22</b>	<b>224.80</b>	<b>226.27</b>	<b>214.00</b>
<b>Return on Equity</b>	<b>9.43%</b>	<b>9.41%</b>	<b>10.61%</b>	<b>11.73%</b>	<b>12.44%</b>
<b>Statistical</b>					
<i>As a Percentage of Average Assets</i>					
Average Liquidity	11.24%	11.17%	11.93%	13.26%	13.79%
Average Loans	86.52%	86.58%	85.85%	84.35%	83.67%
Average Deposits	85.40%	84.65%	85.87%	87.44%	88.02%
Gross Income	6.08%	6.20%	6.10%	5.80%	6.02%
Financial Income	5.32%	5.48%	5.30%	4.94%	5.01%
Financial Expense	2.93%	3.09%	2.75%	2.25%	2.28%
Financial Margin	2.39%	2.40%	2.54%	2.69%	2.73%
Non-Financial Income	0.74%	0.72%	0.80%	0.86%	1.01%
Non-Financial Expense	2.34%	2.40%	2.55%	2.66%	2.78%
Net Loan Loss Expense	0.12%	0.08%	0.09%	0.08%	0.11%
Net Operating Income	0.67%	0.63%	0.70%	0.80%	0.85%
Income Taxes	0.13%	0.10%	0.09%	0.12%	0.14%
Net Income	0.54%	0.53%	0.61%	0.69%	0.71%
<b>Yields/Costs</b>					
Investments <sup>4</sup>	3.29%	3.82%	3.40%	3.19%	3.33%
Loans	5.59%	5.92%	5.73%	5.25%	5.34%
Deposits	3.09%	3.19%	2.85%	2.37%	2.43%
Number of Credit Unions	48	49	51	52	56
Number of Branches <sup>5</sup>	373	368	360	352	347
Number of ATMs	532	529	502	497	485
Number of Members	1,681,500	1,629,435	1,576,754	1,537,047	1,489,878

<sup>1</sup> Income statement for three credit unions with September 30 year-end is adjusted to twelve months ending December 31st.

<sup>2</sup> Figures are net of allowance for doubtful loans, but include accrued interest.

<sup>3</sup> After taxes, before dividends, patronage refunds and capital gains/extraordinary items.

<sup>4</sup> Excludes net interest income on Interest Rate/Foreign Exchange Contracts and Trading Gains (Losses).

<sup>5</sup> Excludes credit union insurance subsidiaries.

Note: 2008 figures are unaudited.

# FIVE-YEAR SUMMARY

Ontario System

As at December 31 except for 2008<sup>1</sup> (millions of dollars)

	Sept. 30, 2008 (9 Months)	2007	2006	2005	2004
<b>Investments</b>					
Liquid (includes Cash)	2,425.12	2,259.39	2,049.52	1,773.18	1,751.15
Other	368.54	269.37	325.41	600.52	317.95
Loans <sup>2</sup>	16,576.41	15,692.69	14,700.70	13,614.00	11,797.30
Other	496.20	497.74	415.82	409.20	338.10
<b>Total Assets</b>	<b>19,866.27</b>	<b>18,719.19</b>	<b>17,491.45</b>	<b>16,396.90</b>	<b>14,204.50</b>
<b>Borrowed Funds</b>					
Members' Deposits	17,507.03	16,481.37	15,409.94	14,642.70	12,730.50
Non-Equity Shares	500.40	488.02	464.07	441.60	330.20
Retained Earnings & Equity Shares	887.64	838.23	790.65	755.50	682.60
Payables & Other	422.56	415.77	336.92	203.80	218.40
<b>Total Liabilities</b>	<b>19,866.27</b>	<b>18,719.19</b>	<b>17,491.45</b>	<b>16,396.9</b>	<b>14,204.50</b>
<b>For the Year Ended</b>					
Average Assets	19,292.73	18,105.31	17,103.07	15,522.70	13,839.55
Average Liquidity	2,661.21	2,451.84	2,374.31	2,221.40	2,101.45
Average Loans	16,134.55	15,196.69	14,157.35	12,705.65	11,300.50
Average Deposits	16,994.20	15,945.65	15,026.32	13,686.60	12,356.00
Financial Margin	374.92	542.91	500.11	461.06	390.40
Non-Financial Margin	484.51	671.99	625.04	585.78	505.20
Non-Financial Expense	416.74	571.38	543.91	515.90	440.00
Net Loan Loss Expense	15.86	22.78	18.51	22.92	14.70
Net Operating Income	67.77	100.61	81.13	69.88	65.10
Income taxes	12.98	18.98	14.94	14.38	12.60
<b>Net Income<sup>3</sup></b>	<b>53.35</b>	<b>74.03</b>	<b>64.99</b>	<b>53.44</b>	<b>53.40</b>
<b>Return on Equity</b>	<b>3.84%</b>	<b>5.58%</b>	<b>5.18%</b>	<b>4.46%</b>	<b>5.27%</b>
<b>Statistical</b>					
<i>As a Percentage of Average Assets</i>					
Average Liquidity	13.79%	13.54%	13.88%	14.31%	15.18%
Average Loans	83.63%	83.93%	82.78%	81.85%	81.65%
Average Deposits	88.09%	88.07%	87.86%	88.17%	89.28%
Gross Income	4.76%	6.91%	6.45%	6.34%	6.18%
Financial Income	4.11%	6.07%	5.61%	5.39%	5.24%
Financial Expense	2.17%	3.07%	2.68%	2.42%	2.42%
Financial Margin	1.94%	3.00%	2.92%	2.97%	2.82%
Non-Financial Income	0.65%	0.84%	0.84%	0.95%	0.94%
Non-Financial Expense	2.16%	3.16%	3.18%	3.32%	3.18%
Net Loan Loss Expense	0.08%	0.13%	0.11%	0.15%	0.11%
Net Operating Income	0.35%	0.56%	0.47%	0.45%	0.47%
Income taxes	0.07%	0.10%	0.09%	0.09%	0.09%
<b>Net Income</b>	<b>0.28%</b>	<b>0.41%</b>	<b>0.38%</b>	<b>0.34%</b>	<b>0.39%</b>
<b>Yield/Costs<sup>4</sup></b>					
Investments	2.32%	3.75%	3.35%	3.24%	3.32%
Loans	4.51%	6.61%	6.21%	5.98%	5.81%
Deposits	2.27%	3.12%	2.72%	2.50%	2.48%
Number of Credit Unions	148	164	170	178	193
Number of Branches	462	474	517	514	532
Number of ATMs	570	544	520	539	369
Number of Members	1,230,477	1,226,444	1,386,577	1,216,622	1,084,159

<sup>1</sup> Figures are as of September 30, 2008. December 31, 2008 data available after March 15, 2009

<sup>2</sup> Figures are net of allowance for doubtful loans

<sup>3</sup> After taxes, dividends, patronage refunds and extraordinary items

<sup>4</sup> Interest yields and cost calculated as a percentage of average assets or liabilities