Central 1

# First Quarter Report 2013

## REPORT TO MEMBERS

### CENTRAL 1 REPORTS RESULTS FOR FIRST QUARTER OF 2013

First quarter highlights compared to the same period last year:

- Central 1's Profit for the period of $20.0 million, compared to a Profit of $31.0 million
- Central 1's Return on Equity of 9.9%, compared to 16.7%
- Central 1's assets of $14.2 billion, down 2.1% from $14.5 billion
- B.C. system[(1)] Net operating income[(2)] of $68.8 million, versus $101.2 million
- B.C. system assets of $57.4 billion, up 5.9% from $54.2 billion
- Ontario system[(3)] Net operating income[(2)] of $45.7 million, versus $36.5 million
- Ontario system assets of $31.3 billion, up 13.8% from $27.5 billion

Central 1 recorded Net financial income of $27.9 million and Profit of $20.0 million during the first quarter, compared to Net financial income of $40.1 million and Profit of $31.0 million respectively, during the same period last year. Central 1's Other income was $27.4 million, an increase of $2.4 million over the same period last year, while Operating expenses increased by $3.7 million to $33.1 million. Assets, at $14.2 billion, decreased 2.1% from $14.5 billion as at March 31, 2012.

At quarter-end, Central 1's borrowing multiple for federal capital adequacy purposes was 13.8:1, while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes was at 39.9%.

In spite of uncertainty caused by events overseas, Canadian financial markets were relatively stable during the quarter. The failed attempt by officials in Cyprus to tax all deposits in Cypriot banks raised investor concerns about the safety of funds on deposit with euro-zone banks. While the eventual agreement to tax deposits in excess of 100,000 euros may have alleviated some concerns, a deposit shift to non-euro banks is underway making banks with a shrinking deposit base in Spain, Portugal and Italy more vulnerable to stress events.

Economic data released in the United States was generally worse than anticipated. Real GDP growth was lower than expected as tax increases and government spending cuts offset improvements in the housing sector. Globally, economic growth remains modest reflecting sluggish growth in the US and financial strain in the euro-zone.

The Canadian economy showed signs of improvement in the first quarter, but real GDP growth is expected to remain below 2% for the rest of 2013. The Bank of Canada is not expected to raise administered interest rates in the near future as financial markets have priced in the next rate hike in 2015.

Yields on Canadian government bonds declined in the latter part of the first quarter. The situation in Cypress created market uncertainty and caused investors to seek safer places to invest. Corporate bond spreads narrowed modestly in the quarter while Canadian swap spreads widened significantly as Canadian banks sought to hedge larger than anticipated mortgage commitments.

British Columbia's labour market showed signs of improvement in the first quarter, while the province's housing market continued to slow. The average level of employment declined 0.3% from the fourth quarter, seasonally adjusted, while the average unemployment rate inched down to 6.5% of the labour force. B.C.'s re-sale housing market continued to slow in the first quarter, with seasonally adjusted unit sales down 10% from the fourth quarter and the average sale price up a slight 0.5%.

Economic growth remained slow in Ontario in the first quarter as real GDP growth was approximately 1%. The average level of employment in the first quarter inched up by 0.2% from the fourth quarter, seasonally adjusted, while the unemployment rate averaged 7.7%. The re-sale housing market was range bound in the first quarter, with seasonally adjusted unit sales down approximately 1% from the fourth quarter and average sale price up approximately 1%.

The B.C. system earned $68.8 million before taxes, dividends and patronage refunds in the first quarter of 2013, down from the $101.2 million earned during the same period in 2012. This reflects a decline in Interest margin of $15.0 million and an increase in salary and benefits of $11.4 million in the first quarter of 2013 compared to the same period a year ago. Combined assets of the B.C. system in the same period rose 5.9%, year-over-year, to reach $57.4 billion at quarter-end.

The Ontario system earned $45.7 million before taxes, dividends and patronage refunds in the first quarter, up from the $36.5 million during the same period in 2012. Interest margin earned by Ontario credit unions increased by $11.1 million compared to the same period in 2012. Combined assets of the Ontario system in the same period rose 13.8%, year-over-year, to reach $31.3 billion at quarter-end.

Approximately $2.2 million of the increase in earnings over 2012 and approximately $1.9 billion of the increase in Ontario system assets can be attributed to the addition of Class "A" member credit unions in Ontario during 2012.

(1) These documents include statements about the credit union system in British Columbia, referred to as the B.C. system. B.C. system financial information has been provided by the Financial Institutions Commission of British Columbia (FICOM), which makes available reports on information provided by British Columbia credit unions. Central 1 has no means of verifying the accuracy of information provided by credit unions to FICOM or FICOM's subsequent compilation of that information. Reference to system information should be interpreted in this context.

(2) System Net operating income is equivalent to income from recurring operations and does not include extraordinary items, patronage dividends or income taxes.

(3) These documents include statements about Central 1's member credit unions in Ontario, collectively referred to as the Ontario system. Ontario system financial information has been provided by the Deposit Insurance Corporation of Ontario (DICO), which makes available reports on information provided by Ontario credit unions. Central 1 has no means of verifying the accuracy of information provided by credit unions to DICO or DICO's subsequent compilation of that information. Reference to system information should be interpreted in this context.

# Management's Discussion and Analysis as at March 31, 2013

This portion of the Report to Members updates Central 1 Credit Union's (Central 1) Management's Discussion and Analysis (MD&A) for the year ended December 31, 2012, and provides a discussion and analysis of Central 1's financial condition and results of operations for the three month period ended March 31, 2013 compared to the corresponding period in the preceding fiscal year. Additional information on Central 1, including its Annual Information Form, may be found on SEDAR at www.sedar.com.

Except as otherwise indicated, financial information for Central 1 included in this MD&A has been prepared in accordance with Central 1's basis of preparation and its accounting policies as contained in Notes 2 and 3 of Central 1's interim consolidated financial statements for the three months ended March 31, 2013 which may be found on SEDAR at www.sedar.com.

**Caution Regarding Forward-Looking Statements**

From time to time, Central 1 makes written forward looking statements, including in this Report to Members, in other filings with Canadian regulators, and in other communications. In addition, representatives of Central 1 may make forward-looking statements orally to analysts, investors, the media and others. All such statements may be considered to be forward-looking statements under applicable Canadian securities legislation.

Within this document, forward-looking statements include, but are not limited to statements relating to Central 1's financial performance objectives, vision and strategic goals, the economic, market and regulatory review and outlook for the Canadian economy and the provincial economies in which Central 1's member credit unions operate. The forward-looking information provided herein is presented for the purpose of assisting readers in understanding Central 1's financial position and results of operations as at and for the periods ended on the dates presented. Forward-looking statements are typically identified by words such as "believe", "expect", "anticipate", "estimate", "plan" and similar expressions of future or conditional verbs such as "will", "may", "should", "could" or "would".

Forward-looking statements, by their nature, require Central 1 to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that predictions, forecasts or conclusions will not prove to be accurate, that assumptions may not be correct and that financial objectives, vision and strategic goals will not be achieved. Central 1 cautions readers not to place undue reliance on these statements as a number of risk factors could cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors - many of which are beyond Central 1's control and the effects of which can be difficult to predict – include credit, market, liquidity and funding, operational, legal and regulatory compliance, insurance, reputation and strategic risks.

Readers are cautioned that the foregoing list is not intended to be exhaustive and other factors may adversely impact Central 1's results. Central 1 does not undertake to update forward-looking statements except as required by applicable securities legislation.

Additional information about these and other factors can be found in the Overview section of our 2012 Annual Report and in the Risk Management section of this Q1 2013 Report to Members.

**Overall Performance and Interim Financial Condition**

During the first quarter of 2013, Central 1 recorded a Profit of $20.0 million or 6.9 cents per share, compared to a Profit of $31.0 million or 11.3 cents per share last year.

Net financial income was $27.9 million, down from $40.1 million posted in the first quarter of 2012.

Canadian financial markets were relatively stable during the quarter. The situation in Cyprus created market uncertainty that led to increased demand for Government of Canada securities. The Canadian government bond yield curve moved lower overall, with yields in the intermediate portion of the curve declining more. Credit spreads narrowed during the quarter, while swap spreads widened significantly as Canadian banks sought to hedge larger than expected mortgage commitments.

As Central 1 holds provincial and corporate bonds and pays fixed rates on interest rate swaps to neutralize its exposure to interest rates, these market developments had a net favorable impact on Central 1's Net financial income. Central 1 had realized and unrealized gains of $5.6 million and $14.5 million respectively resulting in a net gain of $20.1 million during the first quarter, compared to net gains of $29.0 million the previous year. Further information is included in notes 18 and 19 of the consolidated interim financial statements.

Interest margin for the quarter was $7.8 million, down from $11.1 million during the three months ended March 31, 2012. During the past year average yields on both Central 1's assets and its liabilities have declined, reflecting the prevailing low interest rate environment. During that period, yields on Central 1's investment portfolio have declined more sharply than deposit yields reflecting Central 1's lower levels of risk within the securities portfolio.

Lower interest rates on government issued securities combined with the narrowing of credit spreads lifted the value of the securities in the portfolio. Central 1 realized gains in the quarter through the disposal of securities, which resulted in the reversal of unrealized gains on Central 1's trading assets. On the other hand, the decline in interest rates had a negative impact on the derivatives portfolio, which was more than offset by wider swap spreads. During the quarter Central 1 realized losses on the derivative portfolio, which resulted in the reversal of unrealized losses on derivatives. Meanwhile, trading deposits were negatively impacted by the lower interest rates.

Other income of $27.4 million for the quarter was up from the $25.0 million earned in the first quarter of 2012. Note 20 of Central 1's interim consolidated financial statements provides details of the income earned in Central 1's various operating areas.

Quarterly Operating expenses were $33.1 million, up from $ 29.4 million in 2012. Salaries and employee benefits increased from $16.5 million in the first quarter of 2012 to $20.5 million in the first quarter of 2013, reflecting both a restructuring of Central 1's Payment Processing operations and the accrual of amounts payable pursuant to contractual agreements with two members of Central 1's Executive Management Team who announced they were leaving the organization during the first quarter.

Central 1's capital ratios remain well within statutory limits. Central 1's borrowing multiple decreased from 14.4:1 at December 31, 2012 to 13.8:1 at quarter-end, primarily due to a higher level of retained earnings. At the quarter-end, Central 1's risk-weighted capital ratio was 39.9% compared to 38.9% at December 31, 2012.

*B.C. System*

B.C. system net operating income for the quarter was $68.8 million, compared to $101.2 million for the first quarter of 2012. Interest margin decreased by $15.0 million as lower loan yields more than offset loan growth. Salary and benefits expenses recorded in the first quarter of 2013 increased by $11.4 and net loan losses increased by $6.2 million over the same period last year.

Demand for loans, while down over the previous year, remained strong as B.C. system net loans increased by 6.9% year-over-year to reach $49.2 billion as at March 31, 2013. Deposit growth exceeded loan growth, rising 7.3% year-over-year to reach $50.7 billion at period end. Personal mortgages grew by 5.3% from a year ago, and commercial mortgages grew by 12.3%. Meanwhile non-registered deposits grew 12.7% year-over-year.

The B.C. system's rate of loan delinquencies over 90 days at 0.49% of total loans was virtually unchanged from a year ago. System provisions for credit losses as a percentage of average loans were 0.37% as of March 31, 2013 a decrease from 0.40% one year earlier.

The B.C. system's regulatory risk-weighted capital ratio was 13.8% at the end of March, down from 14.5% a year ago. Aggregated liquidity of B.C. credit unions, including that of Central 1, was 13.05% of deposit and debt liabilities, down from 13.9% a year ago.

*Ontario System*

Ontario system net operating income for the quarter was $45.7 million, compared to $36.5 million for the first quarter of 2012. Interest margin increased by $11.1 million as loan growth more than offset narrower lending spreads. Offsetting the improved Interest margin was an increase in Non-financial expenses of $1.6 million over the same period a year ago.

Demand for loans was high as net Ontario net loans increased by 14.2% year-over-year to reach $26.8 billion. Loan growth outstripped deposit growth as deposits increased 12.3% over the previous year to reach $26.8 billion at period end. Residential mortgages grew by 16.6% from a year ago, and commercial loans grew by 13.9%. Meanwhile, non-registered deposits grew 20.5% year-over-year.

The addition of new Class "A" Members subsequent to March 31, 2012 contributed approximately $1.5 billion to the growth in loans and approximately $1.7 billion to the growth in deposits in the Ontario system compared to the same period last year.

The Ontario system's rate of loan delinquencies over 90 days was 0.56%, down from 0.63% a year ago. System provisions for credit losses as a percentage of average loans were 0.34% as of March 31, 2013, a decrease from 0.42% one year earlier.

The Ontario system's regulatory liquidity ratio was 13.1% as the end of March, down from 13.3% a year ago. Class 2 credit unions, which represent 98 per cent of the Ontairo system by assets, finished the year with risk weighted capital adequacy ratio of 13.3%,up from 12.9% a year ago.

**Figure 1 - Selected Financial Information**

| | | For the Three Months Ended | | | |
|---|---|---|---|---|---|
| | | March 31 | | March 31 | |
| | | 2013 | | 2012 | Difference |
| **Earnings** *($ millions)* | | | | | |
| Net financial income | $ | 27.9 | $ | 40.1 | $ (12.2) |
| Net financial and other income | | 56.1 | | 65.2 | (9.1) |
| Profit for the period | | 20.0 | | 31.0 | (11.0) |
| | | | | | |
| Weighted average shares outstanding *($ millions)* | | 291.4 | | 274.2 | 17.2 |
| | | | | | |
| **Earnings per Share** *(cents)* | | | | | |
| Basic | | 6.9 | | 11.3 | (4.4) |
| Fully diluted | | 6.9 | | 11.3 | (4.4) |
| | | | | | |
| **Return on** | | | | | |
| Average assets | | 0.6% | | 0.9% | (0.3%) |
| Average equity | | 9.9% | | 16.7% | (6.9%) |
| | | | | | |
| **Balance Sheet Data** *($ billions)* | | | | | |
| Total assets | $ | 14.2 | $ | 14.5 | $ (0.3) |
| Average assets | | 14.0 | | 14.4 | (0.4) |
| Long term financial liabilities | | 4.9 | | 5.9 | (1.0) |
| | | | | | |
| **Regulatory Capital Ratios** | | | | | |
| Tier 1 capital ratio | | 31.2% | | 28.6% | 2.6% |
| Total capital ratio | | 39.9% | | 37.5% | 2.4% |
| Borrowing multiple (times) | | 13.8 | | 14.4 | (0.6) |
| | | | | | |
| **Share Information** | | | | | |
| Outstanding $1 par value Shares *($ thousands)* | | | | | |
| Class A - credit unions | | 293,286 | | 277,246 | 16,040 |
| Class B - cooperatives | | 5 | | 5 | - |
| Class C - other | | 7 | | 8 | (1) |
| | | | | | |
| Outstanding $0.01 par value Shares with redemption value of $100 *($ thousands)* | | | | | |
| Class E - credit unions | | 32 | | 32 | - |
| | | | | | |
| Dividends per share (cents) | | | | | |
| Class "A" | | 1.07 | | 0.50 | 0.57 |
| Class "B" & "C" | | 0.34 | | 0.50 | (0.16) |
| Class "E" | | - | | 50.00 | (50.00) |

**Total Revenues**

Net Financial Income

Central 1 recorded Net financial income of $27.9 million for the quarter, compared with Net financial income of $40.1 million for the same period last year.

Interest margin decreased from $11.1 million in the first quarter of last year to $7.8 million this quarter as average assets decreased from $14.4 billion to $14.0 billion. As a percentage of average assets, Interest margin decreased from 31.0 basis points in the first quarter of 2012 to 22.5 basis points in the first quarter of 2013.

The decrease in Interest margin continues a trend that began in 2011 when Central 1 undertook to reduce the risk exposures in its investment portfolio. While that strategy has now been implemented, the decline in Interest margin continued in to 2013 as yields on securities have declined relative to yields on Central 1's deposits and other borrowings.

During the quarter, Central 1 recorded net unrealized gains of $14.5 million compared to a loss of $2.0 million during the same period last year. Realized gains on the sale of financial instruments decreased during the period from $31.0 million in 2012 to $5.6 million for the quarter ended March 31, 2013. Taken together, Central 1 recorded an overall gain of $20.1 million on its financial instruments compared to a gain of $29.0 million in the first quarter of 2012.

Yields on Canadian government bonds declined, particularly in the intermediate portion of the yield curve. Credit spreads declined while interest rate swap spreads widened. The combination of lower investment yields, tighter credit spreads and wider swap spreads had a net positive impact on Central 1's bottom line. Realized and unrealized gains on securities were $9.9 million with net gains on derivatives contributing a further $5.6 million to the total gain of $20.1 million.

Other Income

As indicated in Note 20 in Central 1's interim consolidated financial statements, Other income of $27.4 million for the quarter was higher than the $25.0 million earned in the first quarter of 2012.

Central 1's Technology and Payment Services Group revenues increased from $14.3 million during the first quarter of 2012 to $15.7 million in the first quarter of 2013. The increase in revenues is attributed to higher electronic payment processing volumes and increased development fees earned in the Direct Banking area. Included in Other income is Central 1's equity interest in affiliates which increased from $0.8 million in the first quarter of 2012 to $1.9 million in the first quarter of 2013. Central 1 realized dividends from affiliated organizations which contributed a further $0.3 million to the increase in Other income compared to the same period in 2012.

Operating Expenses

Operating expenses incurred in the first quarter increased to $33.1 million, an increase of $3.7 million from the $29.4 million incurred in the first quarter of 2012. Central 1's salary and employee benefits expenses at $20.5 million, increased by $4.0 million over the same period last year. As indicated below, non-recurring expenses of $4.9 million were recorded in the first quarter of 2013, whereas an unrelated non-recurring expenditure of $0.8 million was incurred in the first quarter of 2012.

During the first quarter, Central 1 reorganized certain operations which resulted in the transfer of Payment Processing and related functions from its Mississauga location to its office in Vancouver. As a result of the restructuring a charge to salary and benefit expenses of $2.1 million was incurred in the first quarter of 2013.

On March 21, 2013 Don Rolfe announced his intention to step down as Central 1's CEO later in July, 2013. Also during the quarter, Central 1's Senior Vice President, Government Relations and Corporate Secretary announced his intention to retire in April, 2013. Salary and benefits expense for the three months ended March 31, 2013 includes an accrual for amounts payable to these two individuals in future periods pursuant to contractual agreements of $2.8 million.

Other administration expenses declined from $12.9 million in the first quarter of 2012 to $12.6 million in the first quarter of 2013. Costs of sales and services declined by $1.1 million over the same period last year principally due to improvements in Central 1's paper payments processing infrastructure that came online during 2012. Offsetting these lower expenses compared to the previous year, was an increase in professional fees of $0.6 million. During the first quarter costs were incurred to support the implementation of recommendations resulting from the review of Central 1's capital management, and liquidity and funding risk management processes performed in 2012.

Income Taxes

Central 1's combined federal and provincial statutory rate is 30.5%. Central 1's effective tax rate for the quarter was 12.9%, down from 13.4% in the first quarter of 2012.

The 2013 federal budget announced on March 21, 2013 proposes to phase out the deduction available to credit unions which provides access to the preferential income tax rate for income that is not eligible for the small business deduction. This amendment was substantively enacted subsequent to the end of the quarter which will increase Central 1's effective tax rate in future periods.

Additional information is provided in Note 26 of Central 1's interim consolidated financial statements.

**Statement of Financial Position**

Cash and Securities

Cash and securities were $11.7 billion at period end. Of this amount, $1.7 billion represents reinvestment assets which are designated to offset obligations under the Canada Mortgage Bond (CMB) program. The remaining balance of $10.0 billion (Figure 2, pg. 10) comprises the Minimum and Excess liquidity pools and represents 80.5% of Central 1's total assets excluding reinvestment assets, compared to $8.9 billion and 73.3% a year ago.

The investment activity in Central 1's liquidity pool over the past 12 months continued to be conservative with investments made primarily in Canadian government debt (federal and provincial) and in senior bank debt (Figure 2, page 10).

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

| | 31-Mar-13 | | 31-Mar-12 | | 31-Dec-12 |
|---|---|---|---|---|---|
| **Cash & Liquid Securities** | | | | | |
| Government & Guarantees | $ 4,112.0 | | $ 3,824.3 | | $ 4,159.6 |
| Cash | 100.4 | | 254.8 | | 90.2 |
| | 4,212.4 | 42.1% | 4,079.1 | 45.7% | 4,249.8 |
| Corporate & Financial Institutions AA or Greater * | 5,506.5 | 55.0% | 4,606.3 | 51.6% | 4,764.3 |
| Other | 298.1 | 3.0% | 240.5 | 2.7% | 164.8 |
| **Total** | $ 10,017.0 | 100.0% | $ 8,925.9 | 100.0% | $ 9,178.9 |

* The credit ratings represent investment grade ratings provided by DBRS

Loans

Total loan balances decreased to $1.4 billion from $1.9 billion at the same time last year.

**Figure 3 - Loans ($ millions)**

| | 31-Mar-13 | 31-Mar-12 | 31-Dec-12 |
|---|---|---|---|
| Loans to Credit Unions | $ 1,016.2 | $ 1,606.8 | $ 1,834.3 |
| Syndicated commercial loans | 170.7 | 158.2 | 167.8 |
| Non syndicated commercial loans | 21.8 | 20.7 | 21.4 |
| Other loans | 12.4 | 44.3 | 13.6 |
| Securities acquired under reverse repurchase agreements | 210.4 | 50.9 | 11.5 |
| | $ 1,431.5 | $ 1,880.9 | $ 2,048.6 |

Loans to member credit unions decreased to $1.1 billion from $1.6 billion at the same time last year. The amounts advanced under Central 1's non-credit union loan facilities as at March 31, 2013 was $204.9 million, down from $223.2 million in 2012, of which, commercial lending amounted to $192.5 million as at March 31, 2013, compared to $178.9 million a year ago. These loans represented 13.4% of Central 1's total loan portfolio at quarter-end, up from 9.5% a year ago. Meanwhile, Securities acquired under reverse repurchase agreements saw an increase from $50.9 million to $210.4 million as at March 31, 2013.

Borrowings

Figure 4 (page 11) summarizes Central 1's total Borrowings as at March 31, 2013 together with comparative numbers for the end of the first quarter in 2012.

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

| **Debt securities issued at amortized cost ($ millions)** | **31-Mar-13** | **31-Mar-12** | **31-Dec-12** |
|---|---|---|---|
| Commercial Paper issued | $ 499.2 | $ 399.4 | $ 586.9 |
| Medium term notes issued | 585.8 | 228.1 | 583.9 |
| | 1,085.0 | 627.5 | 1,170.8 |
| **Deposits and Trading Liabilities by type ($ millions)** | | | |
| Statutory Liquidity | 5,728.3 | 5,287.4 | 5,719.6 |
| Excess Liquidity | 2,825.4 | 3,038.1 | 2,663.3 |
| Deposits from member credit unions | 8,553.7 | 8,325.5 | 8,382.9 |
| Others | 597.4 | 624.6 | 467.5 |
| | 9,151.1 | 8,950.1 | 8,850.4 |
| Securities under repurchase agreements | 151.1 | 172.9 | 201.4 |
| Total Borrowings | $ 10,387.2 | $ 9,750.5 | $ 10,222.6 |

Total Debt securities issued as at March 31, 2013 were $1.1 billion compared to $0.6 billion a year ago. Of the total amount outstanding as at March 31, 2013 $0.6 billion was borrowed under Central 1's Medium Term Note facility and the remainder was borrowed through Central 1's Commercial Paper facility.

Deposits from Central 1's member credit unions were $8.6 billion as at March 31, 2013 compared to $8.3 billion a year ago. Credit union minimum deposits grew by $0.4 billion over the year, to reach $5.7 billion at March 31, 2013, reflecting the growth of both the B.C. and the Ontario credit union systems during the same period. Non-statutory deposits from credit unions decreased by $0.2 billion over the past year.

Securitization Activities

As the senior rated entity in the credit union system and in the normal course of business, Central 1 is involved in loan securitizations on behalf of member credit unions.

Member credit unions have securitized these loans either indirectly or directly through Central 1 by creating Government of Canada National Housing Authority (NHA) Mortgage Backed Securities (MBS).

For indirect securitizations, Central 1 provides guarantees or acts as a swap counterparty to member credit unions but does not acquire legal title to the underlying mortgage assets. For direct securitizations, Central 1 purchases the underlying mortgages from member credit unions. Central 1 may retain the NHA MBS created in direct securitization transactions or sell them to Canada Housing Trust (CHT) under the CMB program.

Direct securitization transactions are accounted for on balance sheet while indirect securitizations are off balance sheet. Details of the balances included in the statement of financial position as at period end can be found in Note 10 of the interim consolidated financial statements.

Equity

The Statement of Changes in Equity summarizes the changes in Equity for the three month period ended March 31, 2013. Central 1's equity increased by $34.3 million during the period to $841.4 million. Approximately half the increase in equity during the period can be attributed to growth of retained earnings. This is compared to an increase in equity of $30.8 million during the same period last year.

**Summary of Quarterly Results**

Central 1's financial results for each of the last eight most recently completed quarters are summarized in the accompanying table (Figure 5). Interest margin has declined quarter over quarter since mid-2011. Events in financial markets have resulted in a sustained period of low interest rates which has resulted in lower yields on both Central 1's interest bearing assets and its interest bearing liabilities. Beginning in 2011 and continuing in to 2012 Central 1 reduced the risk exposures in it is investment portfolio; this has resulted in yields on assets declining more than yields on investments over the past several quarters.

Trading gains and losses and changes in fair value of financial instruments have a significant impact on quarterly profit or loss and their timing and magnitude are not predictable.

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

| | 2013/2012 Period Ended | | | | 2012/2011 Period Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | 30-Jun-12 | 30-Sep-12 | 31-Dec-12 | 31-Mar-13 | 30-Jun-11 | 30-Sep-11 | 31-Dec-11 | 31-Mar-12 |
| Total interest income | $ 77,146 | $ 74,791 | $ 73,033 | $ 64,398 | $ 85,814 | $ 85,414 | $ 83,030 | $ 79,212 |
| Total interest expense | 67,014 | 65,306 | 63,901 | 56,611 | 71,235 | 71,319 | 70,138 | 68,082 |
| Interest margin | 10,132 | 9,485 | 9,132 | 7,787 | 14,579 | 14,095 | 12,892 | 11,130 |
| Gain on disposal of financial instruments | 22,329 | 10,595 | 2,727 | 5,645 | 12,476 | 30,306 | 43,502 | 30,972 |
| Changes in fair value of financial instruments | (27,108) | 10,258 | 3,792 | 14,496 | (9,939) | (73,432) | (28,629) | (1,986) |
| Recovery (provision) of credit losses | (553) | 872 | 1,995 | 745 | (442) | (3,794) | (1,084) | 111 |
| Other income | 27,421 | 26,179 | 28,250 | 27,424 | 25,278 | 27,554 | 25,229 | 25,007 |
| Operating expenses | (27,551) | (27,641) | (30,470) | (33,119) | (30,720) | (25,797) | (33,844) | (29,403) |
| Income taxes | (682) | (4,120) | (1,928) | (2,948) | (1,557) | 4,359 | (2,647) | (4,803) |
| Profit (loss) for the period | $ 3,988 | $ 25,628 | $ 13,498 | $ 20,030 | $ 9,675 | $ (26,709) | $ 15,419 | $ 31,028 |
| Weighted average shares outstanding (millions) | 278.3 | 281.2 | 287.6 | 291.4 | 168.1 | 170.6 | 239.5 | 274.2 |
| Earnings per share | | | | | | | | |
| Basic *(cents)* | 1.4 | 9.1 | 4.7 | 6.9 | 5.8 | (15.7) | 6.4 | 11.3 |
| Diluted *(cents)* | 1.4 | 9.1 | 4.7 | 6.9 | 5.8 | (15.7) | 6.4 | 11.3 |

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

First Quarter 2013 Compared to Fourth Quarter 2012

The Profit for the first quarter of 2013 was $20.0 million, up from a Profit of $13.5 million in the fourth quarter of 2012. Interest margin decreased to $7.8 million in the first quarter compared to $9.1 million in the fourth quarter of 2012 primarily reflecting lower yields on securities. Average assets were lower at $14.1 billion compared to $14.6 billion in the previous quarter. Interest margin as a percentage of average assets decreased from 27.5 basis points to 22.5 basis points.

Gains on disposal of financial instruments were $5.6 million while changes in fair value of financial instruments resulted in a gain of $14.5 million, giving a net overall gain of $20.1 million, compared to an overall gain of $6.5 million in the fourth quarter of 2012. Demand for government issued securities increased in the first quarter of 2013 resulting in lower interest rates which had a net positive impact on Central 1's financial instruments.

Other income of $27.4 million during the first quarter of 2013 was down from $28.3 million during the fourth quarter of 2012. Technology and Payment Services revenues were $15.7 million during the first quarter, unchanged from the fourth quarter of 2012. Insurance related revenues and Treasury services revenues both declined by $0.6 million which was offset by an increase in Equity interest in affiliates of $0.8 million.

In aggregate, Operating expenses during the first quarter of 2013 were $33.1 million, up from $30.5 million during the fourth quarter of 2012. Salary and benefit expense increased from $14.5 million during the fourth quarter of 2012, to $20.5 million in the first quarter of 2013. Accruals for restructuring costs and amounts payable to members of Central 1's Executive Management Team pursuant to contractual agreements account for most of the increase in salaries compared to the previous quarter. Accruals for variable compensation awards were also higher in the first quarter of 2013 as during the fourth quarter of 2012 a downward adjustment was made to amounts accrued through September 30, 2012 to reflect year-end results.

Other operating expenses for the first quarter of 2013 were $12.6 million, which was down $3.4 million from the fourth quarter of 2012. Cost of sales and services related to the provision of insurance programs offered by Central 1's subsidiaries declined $0.8 million compared to the fourth quarter of 2012. In the first quarter of 2013, certain project related expenses were deferred resulting in a decrease in operating expenses of $0.9 million over the previous quarter. Costs related to the review of Central 1's capital management, and liquidity and funding risk management processes were $0.6 million lower in the first quarter of 2013 than those incurred in the fourth quarter of 2012.

## Capital Resources

Central 1's regulatory capital levels, for both federal and provincial purposes, were well within the limits set by federal and provincial requirements.

| Figure 6a - Capital Targets | Mar-13 | Mar-12 | Dec-12 | Target | Regulatory Requirement |
|---|---|---|---|---|---|
| Total Capital as % of Risk-Weighted Assets (Prov) | 39.9% | 37.5% | 38.9% | > 15% | > 10% |
| Borrowing Multiple (Fed) | 13.8:1 | 14.4:1 | 14.4:1 | 15.0:1-17.0:1 | less than 20.0:1 |

Central 1 seeks to operate within a target range for its borrowing multiple of 15:1 to 17:1 and at a level of Total Capital as a percentage of Risk Weighted Assets in excess of 15%. Central 1 seeks to operate at the lower end of the borrowing multiple range to ensure that it has capacity to absorb sudden increases in member deposits, an increase in external borrowings to meet member demand for loans from Central 1, and market volatility.

Central 1's borrowing multiple for federal capital adequacy purposes was 13.8:1, down from 14.4:1 at December 2012 while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes increased from 38.9% to 39.9% during the same period. The decrease in the borrowing multiple is primarily driven by the increase in Retained Earnings.

Under the terms of Central 1's Capital Plan, management periodically reviews and adjusts the level of Class "A" Share Capital required to be contributed by its credit union members to support Central 1's anticipated future activities. The next review is scheduled to be completed during 2013.

| **Figure 6b - Capital Position ($ thousands)** | **Mar-13** | **Mar-12** | **Dec-12** |
|---|---|---|---|
| Share Capital | $ 293,330 | $ 277,291 | $ 290,299 |
| Contributed Surplus | 87,901 | 87,901 | 87,901 |
| Retained Earnings | 391,938 | 333,152 | 368,180 |
| Less: Adjustments | (4,529) | (4,735) | (4,529) |
| **Tier 1 Capital** | 768,640 | 693,609 | 741,851 |
| Subordinated Debt | 168,000 | 168,000 | 168,000 |
| Add: Adjustments | 4,529 | 4,735 | 4,529 |
| **Tier 2 Capital** | 172,529 | 172,735 | 172,529 |
| **Total Capital** | 941,169 | 866,344 | 914,380 |
| Statutory Capital Adjustments | (148,217) | (150,894) | (152,905) |
| **Capital Base** | $ 792,952 | $ 715,450 | $ 761,475 |

Central 1's regulatory capital base for federal purposes is calculated in Figure 6b above. As at March 31, 2013, Central 1's federal Tier 1 Capital was $768.6 million and Total Capital before deductions was $941.2 million, compared to $693.6 million and $866.3 million, respectively, a year earlier. The increase in the Total Capital before deductions over the past year primarily reflects the growth in Share Capital and Retained Earnings. The calculation of Central 1's capital base for provincial purposes is similar to the federal calculation.

## Risk management

This portion of the Report to Members should be read in conjunction with the Risk Management section of Central 1's MD&A for the year ended December 31, 2012.

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 1 is responsible for ensuring that managed assets are available to meet its own needs, together with those of the system. Central 1's liquidity risk has not changed significantly during the quarter.

Market Risk

Market risk refers to the risk of loss resulting from changes in market factors such as interest rates, foreign exchange rates and credit and swap spreads. The level of market risk to which Central 1 is exposed varies depending on market conditions, future price and market movements and the composition of Central 1's investment, lending and derivative portfolios. Market risk can have a direct impact on Central 1's earnings for those positions which are marked-to-market for accounting purposes.

Central 1's investment policy defines acceptable limits for interest rate risk. Those limits are based on the effects of +/- 200 basis point parallel shift in the yield curve. Such a yield curve shift must not result in more than a 25.0 per cent decline in Interest margin from the base forecast over a 12 month horizon, while the maximum decline in the Fair Value of Equity cannot exceed 20.0 per cent.

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

**Interest Rate Sensitivity ($ thousands)**

| Before Tax Impact of: | Interest Margin Amount | Interest Margin Percentage of base forecast | Fair Value of Net Assets Amount | Fair Value of Net Assets Percentage of base forecast |
|---|---|---|---|---|
| 200 bps increase in rates | $ (1,787) | (7.0%) | $ (33,020) | (4.6%) |
| 200 bps decrease in rates | $ 920 | 3.6% | $ 21,267 | 3.0% |

The duration of Central 1's interest bearing liabilities is shorter than that of its interest bearing assets. As such, if interest rates were to immediately shift upward by 200 basis points and remain at such levels over a 12 month period, Central 1's interest expense would exceed its interest income, resulting in a decline in Interest margin.

Credit spread risk arises from the possibility that changes in credit spreads will affect value of financial instruments. Central 1's policies establish overall credit spread limits for the entire portfolio, as well as separate limits for individual books. Credit spread risk is calculated daily and monitored by Internal Risk Management. Central 1 also regularly measures the credit spread impact of a series of extreme-yet-plausible stress tests on its portfolio.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the risk of potential adverse impact on Central 1's earnings and economic value due to currency rate movements and volatility. Central 1 has assets and liabilities denominated in several major currencies 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.

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 1 and its counterparties associated with both on- and off-balance sheet financial instruments.

The composition of Central 1's securities portfolio is relatively unchanged from year-end as indicated in the Cash and Securities section (Figure 2, page 10). Most of the portfolio is invested in Canadian federal and provincial government and Canadian senior bank debt. Details of Central 1's loan portfolio are found in Note 8 of the interim consolidated financial statements. Credit risk associated with Central 1's loans to its member credit unions is minimal because these loans are fully secured. Central 1 has not previously experienced losses on any of these loans.

Insurance Risk

Central 1 is exposed to insurance risk through the activities of its subsidiaries, CUPP Services Ltd. and Stabilization Fund Corporation. Insurance risk refers to the potential loss that may arise where the amount or timing of benefit payments under insurance contracts exceeds that expected.

Central 1 manages its exposure to insurance risk by imposing underwriting limits, and by performing regular reviews of actual claims experience and product pricing.

Operational Risk

Operational risk is the exposure to loss resulting from inadequacies or failures concerning internal processes, people and systems.

Central 1 manages this type of risk through implementation of a comprehensive set of procedures and policies that are basic to its operating infrastructure including:

- 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 1'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 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.

**Central 1's Accounting Policies and Estimates**

Central 1’s consolidated interim financial statements, included in this Report to Members, have been prepared in accordance with IAS 34 Interim Financial Reporting and International Financial Reporting Standards.

Effective January 1, 2013 Central adopted new and amended accounting standards *IAS 1 – Presentation of Other Comprehensive Income, IFRS 10 – Consolidation*, *IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities, IFRS 13 – Fair Value Measurement*, and *IAS 19R – Employee Benefits (revised).*

IFRS 10 provides the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee. IFRS 11 provides a framework for entities to assess whether or not they participate in joint arrangement, joint venture of joint operations. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of risk associated with the entity’s interest in other entities. IFRS 13 establishes a framework for measuring fair value and sets disclosure requirements for fair value measurements. IAS 19R provides a new approach to measuring actuarial gains and losses on employee benefit plans.

On adoption of IAS 19R, Central 1 elected to change its accounting policy related to the recognition of unrealized actuarial gains and losses. Previously, Central 1 recognized actuarial gains or losses immediately on Other Comprehensive Income (OCI) and subsequently transferred those amounts from AOCI to retained earnings. Central 1 will no longer transfer unrealized gains or losses from AOCI to retained earnings.

The impact of this change was to increase retained earnings by $6.7 million and to decrease AOCI by $12.1 million as at December 31, 2012 from the amounts that were reported in Central 1’s 2012 annual consolidated financial statements.

Note 3 of Central 1's interim consolidated financial statements provides additional information on the impact of adopting these new and amended accounting standards on Central 1's financial statements.

Critical Accounting Estimates

The adoption of these new and amended accounting standards has required management to exercise judgment in determining fair value and in assessing whether or not Central 1 has control of other entities. Note 3 of the consolidated interim financial statements contains information on these areas and should be read in conjunction with Note 4 of Central 1's annual consolidated financial statements for the year ended December 31, 2012.

**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 1'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 1's interim filings, as such term is defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

Central 1 evaluated the design of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the quarter ended March 31, 2013.

There has been no change in Central 1's design of internal controls and procedures over financial reporting that has materially affected Central 1's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

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

(Thousands of dollars)

| | Notes | March 31 2013 | March 31 2012 | December 31 2012 | January 1 2012 (Note 3) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | | $ 100,393 | $ 254,808 | $ 90,238 | $ 100,795 |
| Deposits with regulated financial institutions | 5 | 6,614 | 6,149 | 106,275 | 5,357 |
| Pledged trading assets | 6 | 81,809 | 33,720 | 135,572 | 51,652 |
| Reinvestment assets under the CMB and IMPP Programs | 10 | 1,694,200 | 2,306,280 | 1,652,244 | 2,205,742 |
| Non-pledged trading assets | 6 | 2,620,943 | 3,669,190 | 2,678,954 | 3,998,708 |
| Derivative assets | 7 | 36,117 | 27,875 | 34,018 | 41,347 |
| Loans | 8 | 1,434,980 | 1,876,194 | 2,052,002 | 2,482,412 |
| Investment securities | 9 | 7,255,241 | 5,009,559 | 6,404,100 | 3,941,659 |
| Secured loans to members | 10 | 497,640 | 1,025,627 | 561,511 | 1,167,423 |
| Current tax assets | | - | 218 | - | - |
| Property and equipment | | 16,510 | 18,173 | 17,303 | 16,803 |
| Intangible assets | | 6,968 | 3,085 | 6,412 | 2,568 |
| Deferred tax assets | | 6,547 | 7,467 | 6,389 | 8,197 |
| Investment in affiliates | | 110,429 | 108,604 | 110,170 | 108,831 |
| Other assets | 11 | 319,438 | 184,819 | 294,231 | 453,685 |
| | | $ 14,187,829 | $ 14,531,768 | $ 14,149,419 | $ 14,585,179 |
| **Liabilities** | | | | | |
| Deposits designated as trading | 12 | $ 2,149,715 | $ 1,944,973 | $ 2,286,078 | $ 2,034,219 |
| Derivative liabilities | 7 | 195,958 | 172,624 | 216,042 | 211,967 |
| Debt securities issued | 13 | 1,085,017 | 627,536 | 1,170,804 | 375,516 |
| Deposits | 14 | 7,001,375 | 7,005,267 | 6,564,336 | 7,154,651 |
| Obligations under the CMB and IMPP Programs | 10 | 2,341,655 | 3,294,818 | 2,259,992 | 3,246,227 |
| Subordinated liabilities | 15 | 170,411 | 170,139 | 168,859 | 168,567 |
| Provisions | | 5,031 | 5,293 | 5,280 | 5,798 |
| Securities under repurchase agreements | | 151,120 | 172,867 | 201,433 | 57,020 |
| Current tax liabilities | | 3,064 | - | 2,580 | 4,281 |
| Deferred tax liabilities | | 3,047 | 2,872 | 2,929 | 2,981 |
| Other liabilities | 16 | 240,046 | 383,541 | 463,996 | 602,924 |
| | | 13,346,439 | 13,779,930 | 13,342,329 | 13,864,151 |
| **Equity** | | | | | |
| Share capital | 17 | 293,330 | 277,291 | 290,299 | 272,062 |
| Contributed surplus | | 87,901 | 87,901 | 87,901 | 87,901 |
| Retained earnings | | 391,938 | 339,190 | 374,841 | 310,782 |
| Accumulated other comprehensive income | | 53,409 | 33,010 | 39,459 | 35,917 |
| Reserves | | 5,207 | 5,361 | 4,985 | 5,281 |
| Total equity attributable to members of Central 1 | | 831,785 | 742,753 | 797,485 | 711,943 |
| Non-controlling interest | | 9,605 | 9,085 | 9,605 | 9,085 |
| | | 841,390 | 751,838 | 807,090 | 721,028 |
| | | $ 14,187,829 | $ 14,531,768 | $ 14,149,419 | $ 14,585,179 |
| Guarantees, commitments, and contingencies | 22 | | | | |

Approved by the Directors:

*"Terry Enns"*
Terry Enns, Chairperson

*"Daniel A. Burns"*
Daniel A. Burns, Chairperson - Audit and Finance Committee

See accompanying notes to the interim consolidated financial statements

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

| | Notes | March 31 2013 | March 31 2012 |
|---|---|---|---|
| | | (Thousands of dollars) For the three months ended | |
| **Interest income** | | | |
| Securities | | $ 38,476 | $ 38,912 |
| Deposits with regulated financial institutions | | 93 | 78 |
| Loans | | 8,913 | 11,198 |
| Secured loans and reinvestment assets | | 16,916 | 29,024 |
| | | 64,398 | 79,212 |
| **Interest expense** | | | |
| Debt securities issued | | 5,568 | 3,446 |
| Deposits | | 30,944 | 33,555 |
| Obligations under the CMB and IMPP programs | | 18,472 | 29,436 |
| Subordinated liabilities | | 1,627 | 1,645 |
| | | 56,611 | 68,082 |
| Interest margin | | 7,787 | 11,130 |
| Gain on disposal of financial instruments | 18 | 5,645 | 30,972 |
| Changes in fair value of financial instruments | 19 | 14,496 | (1,986) |
| Net financial income | | 27,928 | 40,116 |
| Recovery of credit losses | 8 | (745) | (111) |
| | | 28,673 | 40,227 |
| Other income | 20 | 27,424 | 25,007 |
| Net financial and other income | | 56,097 | 65,234 |
| **Operating expenses** | | | |
| Salaries and employee benefits | | 20,530 | 16,488 |
| Premises and equipment | | 2,404 | 2,334 |
| Other administrative expenses | | 10,185 | 10,581 |
| | | 33,119 | 29,403 |
| Profit before income taxes | | 22,978 | 35,831 |
| Income taxes | 21 | 2,948 | 4,803 |
| Profit for the period | | $ 20,030 | $ 31,028 |

See accompanying notes to the interim consolidated financial statements

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

| | (Thousands of dollars) For the three months ended March 31 2013 | March 31 2012 |
|---|---|---|
| Profit for the period | $ 20,030 | $ 31,028 |
| Other comprehensive income, net of tax | | |
| Fair value reserve (available-for-sale financial assets) | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Net change in fair value[1] | 18,345 | (1,527) |
| Reclassification of gains on available-for-sale assets to profit or loss[2] | (4,395) | (1,380) |
| Other comprehensive income (loss), net of tax | 13,950 | (2,907) |
| Comprehensive income, net of tax | $ 33,980 | $ 28,121 |
| Income tax (recoveries) deducted from the above items | | |
| Income tax on items that may be reclassified subsequently to profit or loss | | |
| [1] Net change in fair value of available-for-sale assets | $ 2,930 | $ (144) |
| [2] Reclassification of gains on available-for-sale assets to profit or loss | $ (648) | $ (186) |

See accompanying notes to the interim consolidated financial statements

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

| (Thousands of dollars) | Share Capital | Contributed Surplus | Retained Earnings | Fair Value Reserve | Employee Benefits Reserve | Other Reserves | Equity Attributable to Members | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Attributible to Equity holders | | | | | | | | |
| Balance at January 1, 2013 (Note 3) | $ 290,299 | $ 87,901 | $ 374,841 | $ 51,577 | $ (12,118) | $ 4,985 | $ 797,485 | $ 9,605 | $ 807,090 |
| **Total Comprehensive income for the period** | | | | | | | | | |
| Profit for the period | | | 20,030 | | | | 20,030 | | 20,030 |
| Other comprehensive income, net of tax | | | | | | | | | |
| Fair value reserve (available-for-sale financial assets, net of tax) | | | | 13,950 | | | 13,950 | | 13,950 |
| Total comprehensive income | - | - | 20,030 | 13,950 | - | - | 33,980 | - | 33,980 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Dividends to members | | | (3,148) | | | | (3,148) | | (3,148) |
| Related tax savings | | | 440 | | | | 440 | | 440 |
| Class "E" shares redemption, net of tax | | | (3) | | | | (3) | | (3) |
| Net Classes "A", "B" and "C" shares issued | 3,031 | | | | | | 3,031 | | 3,031 |
| Transfer from reserves | | | (222) | | | 222 | - | | - |
| Total contributions and distributions to owners | 3,031 | - | (2,933) | - | - | 222 | 320 | - | 320 |
| Balance at March 31, 2013 | $ 293,330 | $ 87,901 | $ 391,938 | $ 65,527 | $ (12,118) | $ 5,207 | $ 831,785 | $ 9,605 | $ 841,390 |

| Profit attributable to: | 2013 | 2012 |
|---|---|---|
| Members of Central 1 | $ 20,030 | $ 31,028 |
| Non-controlling interest | - | - |
| | $ 20,030 | $ 31,028 |

| Total Comprensive income attributable to: | | |
|---|---|---|
| Members of Central 1 | $ 33,980 | $ 28,121 |
| Non-controlling interest | - | - |
| | $ 33,980 | $ 28,121 |

See accompanying notes to the interim consolidated financial statements

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

| (Thousands of dollars) | Attributible to Equity holders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Contributed Surplus | Retained Earnings | Fair Value Reserve | Employee Benefits Reserve | Other Reserves | Equity Attributable to Members | Non-Controlling Interest | Total Equity |
| Balance at January 1, 2012 (Note 3) | $ 272,062 | $ 87,901 | $ 310,782 | $ 45,612 | $ (9,695) | $ 5,281 | $ 711,943 | $ 9,085 | $ 721,028 |
| **Total Comprehensive income for the period** | | | | | | | | | |
| Profit for the period | | | 31,028 | | | | 31,028 | | 31,028 |
| Other comprehensive income (loss), net of tax | | | | | | | | | |
| Fair value reserve (available-for-sale financial assets, net of tax) | | | | (2,907) | | | (2,907) | | (2,907) |
| Total comprehensive income | - | - | 31,028 | (2,907) | - | - | 28,121 | - | 28,121 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Dividends to members | | | (2,935) | | | | (2,935) | | (2,935) |
| Related tax savings | | | 410 | | | | 410 | | 410 |
| Class "E" shares redemption, net of tax | | | (15) | | | | (15) | | (15) |
| Net Classes "A", "B" and "C" shares issued | 5,229 | | | | | | 5,229 | | 5,229 |
| Transfer from reserves | | | (80) | | | 80 | - | | - |
| Total contributions and distributions to owners | 5,229 | - | (2,620) | - | - | 80 | 2,689 | - | 2,689 |
| Balance at March 31, 2012 | $ 277,291 | $ 87,901 | $ 339,190 | $ 42,705 | $ (9,695) | $ 5,361 | $ 742,753 | $ 9,085 | $ 751,838 |

See accompanying notes to the interim consolidated financial statements

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

| | (Thousands of dollars) | |
|---|---|---|
| | For the three months ended | |
| | March 31 2013 | March 31 2012 |
| Cash flows from operating activities | | |
| Profit for the period | $ 20,030 | $ 31,028 |
| Adjustments for: | | |
| Depreciation and amortization | 1,105 | 676 |
| Net interest income | (7,787) | (11,130) |
| Gain on disposal of financial instruments | (5,645) | (30,972) |
| Changes in fair value of financial instruments | (14,496) | 1,986 |
| Income tax expense | 2,948 | 4,803 |
| Recovery of credit losses | (745) | (111) |
| Other items, net | (790) | (2,323) |
| | (5,380) | (6,043) |
| Change in trading assets | 122,825 | 335,719 |
| Change in settlements in transit | (248,549) | 51,782 |
| Change in loans | 617,052 | 606,959 |
| Change in trading liabilities | (137,724) | (86,209) |
| Change in deposits | 437,463 | (148,106) |
| Change in deriatives assets and liabilities | (24,031) | (605) |
| | 761,656 | 753,497 |
| Interest received | 58,905 | 71,063 |
| Interest paid | (49,142) | (52,262) |
| Income tax paid | (4,532) | (7,948) |
| Net cash from operating activities | 766,887 | 764,350 |
| Cash flows from investing activities | | |
| Change in deposits with regulated financial institutions | 99,682 | (751) |
| Change in reinvestment assets under the CMB and IMPP programs | (40,140) | (104,718) |
| Change in investment securities | (827,761) | (1,065,353) |
| Change in secured loans to members | 62,759 | 137,524 |
| Disposal (acquisition) of property, plant and equipment | 34 | (1,726) |
| Acquisition of intangible assets | (810) | (745) |
| | (706,236) | (1,035,769) |
| Cash flows from financing activities | | |
| Change in obligations under the CMB and IMPP Programs | 87,390 | 59,551 |
| Change in debt securities issued | (87,565) | 250,129 |
| Change in securities under repurchase agreements | (50,318) | 115,774 |
| Dividends paid | (3,034) | (5,251) |
| Issuance of shares | 3,031 | 5,229 |
| | (50,496) | 425,432 |
| Increase in cash and cash equivalents | 10,155 | 154,013 |
| Cash and cash equivalents - beginning of period | 90,238 | 100,795 |
| Cash and cash equivalents - end of period | $ 100,393 | $ 254,808 |

See accompanying notes to the interim consolidated financial statements

**Table of Contents**

## 1. Incorporation and governing legislation

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

Central 1 is the primary financial facility and trade association for credit unions in British Columbia and its member credit unions in Ontario. The performance of the British Columbia credit union system and that of Central 1's member credit unions in Ontario (collectively referred to herein as the Ontario credit union system) plays an integral part in determining the results of Central 1's operations and its financial position.

## 2. Basis of preparation

### (a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and International Financial Reporting Standards (IFRS).

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

The interim consolidated financial statements were authorized for issue by the Board of Directors on May 24, 2013.

**Cooperative Credit Associations Act (Canada)**

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

### (b) Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial instruments through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value, except as described in Note 9.
- the assets and liabilities for defined benefit obligations are recognized as the present value of the benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized actuarial past service costs and unrecognized actuarial losses.

### (c) Functional and presentation currency

These interim consolidated financial statements are presented in Canadian dollars, which is Central 1's functional currency.

### (d) Use of estimates and judgements

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

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

Note 4 of Central 1's annual consolidated financial statements for the year ended December 31, 2012 contains information about significant areas of estimation, uncertainty and critical judgments that were used in applying accounting policies during the preparation of Central 1's annual consolidated financial statements for the year ended December 31, 2012. In addition to those areas, management applied significant judgment in the following areas when preparing Central 1's interim consolidated financial statements for the three months ended March 31, 2013.

*Determining fair value*

The determination of fair value for financial assets and liabilities requires the exercise of judgement by management. The adoption of the new accounting standard IFRS 13 – Fair Value Measurement, has resulted in greater flexibility being permitted in determining fair values. The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also Note 4 “Fair value of financial instruments” for further discussion.

*Determining if control exists over an investee*

Under IFRS 10 an entity must assess whether or not it controls other entities based on assessment of its ability to influence the returns of an investee and the level to which it participates in those returns. This requires an investor to assess the nature of the operations of the investee, the degree to which it is able to direct those operations and the level of exposure that the investor has to the variable returns of those entities.

**(e) Reclassification of prior year comparatives**

Certain prior year comparatives have been reclassified to conform to the current year’s presentation.

## 3. Significant accounting policies

These consolidated interim financial statements have been prepared using the same accounting policies as set out in Note 3 to Central 1’s consolidated financial statements as at and for the year ended December 31, 2012 except as described below:

Effective January 1, 2013 the following new and amended accounting standards were adopted by Central 1; IAS 1 – Presentation of Financial Statements (Amended), IFRS 10 – Consolidation, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities, IFRS 13 – Fair Value Measurement, IAS 19R – Employee Benefits (revised).

IAS 1 Amended prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The amended standard requires an entity to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. As a result of adopting this standard, Central 1 has modified the presentation of its Interim Consolidated Statement of Comprehensive Income.

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purposes Entities. IFRS 10 establishes the principles of control and introduces a new approach to determining whether an investor controls an investee and therefore must consolidate the investee. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee. Central 1 concluded that there were no entities to be consolidated or deconsolidated on adoption of this standard.

IFRS 11 provides a framework for entities to assess whether or not they participate in a joint arrangement, joint venture or joint operations. Central 1 concluded that there were no activities of Central 1 which constituted a joint arrangement, joint venture or joint operations.

IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. On adoption of this standard, Note 3(a) to Central 1's consolidated financial statements as at and for the year ended December 31, 2012 was replaced by the section on the Basis of Consolidation below.

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard establishes a framework for measuring fair value including a revised definition of fair value (further details can be found in Note 4 to the Interim Consolidated Financial Statements) and sets out disclosure requirements for fair value measurements. Central 1 concluded that there were no significant changes in the fair value measurement of financial instruments required on adoption of this new standard although additional enhancements have been made to disclosures on fair values in the Interim Consolidated Financial Statements.

IAS 19R provides a new approach to measuring actuarial gains and losses on employee benefit plans. The new standard eliminates the use of the "corridor method" with actuarial gains and losses now to be recognized in Other Comprehensive Income as they are incurred. The entity may also transfer the amounts recognized in Other Comprehensive Income within Equity while previously, it was a requirement to transfer the amounts recognized in Other Comprehensive Income to retained earnings.

The adoption of these new and amended standards has not resulted in changes in the carrying amount of assets or liabilities as previously reported except for IAS 19R. On adoption of IAS 19R, Central 1 chose to amend its accounting policy related to the recognition of unrealized actuarial gains and losses. Previously, Central 1 recognized actuarial gains or losses immediately in Other Comprehensive Income and subsequently transferred those amounts from Accumulated Other Comprehensive Income to retained earnings. Central 1 will no longer transfer unrealized gains or losses to retained earnings from Accumulated Other Comprehensive Income to retained earnings. The impact of this change is as follows:

| | (Thousands of dollars) | | |
|---|---|---|---|
| **Retained earnings** | **As Previously Disclosed** | **Impact of Transitional Adjustments** | **As Revised** |
| **As at January 1, 2012** | $ 304,744 | $ 6,038 | $ 310,782 |
| Profit for the year | 74,265 | (207) | 74,058 |
| Transactions with owners and Non-Controlling Interests | (10,828) | 829 | (9,999) |
| **As at December 31, 2012** | $ 368,181 | $ 6,660 | $ 374,841 |

| **Accumulated other comprehensive income** | | | |
|---|---|---|---|
| **As at January 1, 2012** | $ 45,612 | $ (9,695) | $ 35,917 |
| Other Comprehensive Income | 5,136 | (1,594) | 3,542 |
| Transactions with owners and Non-Controlling Interests | 829 | (829) | - |
| **As at December 31, 2012** | $ 51,577 | $ (12,118) | $ 39,459 |

The impact on Retained earnings and Accumulated other comprehensive income as at March 31, 2012 was to increase Retained earnings by $6.0 million and to reduce Accumulated other comprehensive income by $9.7 million.

**Basis of consolidation**

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

Subsidiaries are entities controlled by Central 1. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies across all subsidiaries for like transactions and other events in similar circumstances.

An entity is consolidated if Central 1 concludes that it controls the entity. The following circumstances may indicate a relationship in which, in substance, Central 1 controls and therefore consolidates the entity:

- Central 1 has power over the entity whereby Central 1 has the ability to direct the relevant activities ie. the activities that affect the entity's returns
- Central 1 is exposed, or has rights, to variable returns from its involvement with the entity
- Central 1 has the ability to use its power over the entity to affect the amount of the entity's returns

Central 1 owns all of the outstanding common shares of CUPP Services Ltd. (CUPP) which allows Central 1 to appoint the majority of the Board of Directors. CUPP has no employees and management functions are performed by employees of Central 1 pursuant to contractual agreements. Credit unions of British Columbia, including Central 1, participate in insurance programs offered by CUPP and hold preferred shares based on the historical performance of CUPP. Central 1 is exposed to returns from CUPP both through its holdings of the common shares and through its participation in the programs offered by CUPP. Management has concluded that Central 1 has control over CUPP through its voting rights and exposure to variable returns from CUPP. Central 1 recognizes the interests of these preferred shareholders of CUPP Services Ltd. as a Non-controlling interest in the consolidated statement of financial position.

Central 1 owns all the common shares of Stabilization Fund Corporation. Members of the Board of Directors of Stabilization Fund Corporation are employees of Central 1 and have been appointed to the Board of Stabilization Fund Corporation by Central 1. Stabilization Fund Corporation has no employees and management functions are performed by Central 1 employees pursuant to contractual agreements. Management has concluded that Central 1 has control over Stabilization Fund.

Further information regarding Central 1's subsidiaries is contained in Note 25.

## 4. Fair value of financial instruments

Certain financial instruments are recognized in the interim consolidated statements of financial position at fair value. These include derivative instruments, deposits designated as trading and securities and amounts on deposit classified either as available-for-sale or held for trading fair value through profit or loss. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date. The best evidence of fair value is a quoted bid price for financial assets or an offer price for financial liabilities from an active market.

Where independent quoted market prices do not exist, Central 1 uses the quoted market prices for similar securities, other third party evidence or valuation techniques. Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above. The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows and discount rates.

*Financial instruments whose book values approximate fair value*

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

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

The fair value of fixed rate performing loans is determined by discounting contractual cash flows at market interest rates. For both loans to and deposits with members, Central 1 discounts the expected cash flows using interest rates currently being offered on instruments with similar terms. The fair values of notes and subordinated debt is determined by discounting remaining cash flows by reference to current market yields on similar instruments.

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

Central 1 measures fair value using the following hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

Transfers into and out of Levels 1, 2, and 3 occur when there are changes to the relevant inputs which are consistent with the characteristics of the asset or liability. Transfers are recognized at the end of the reporting period.

The following table presents the fair value of Central 1's assets and liabilities classified in accordance with the fair value hierarchy:

| March 31, 2013 | Level 1 | Level 2 | Level 3 | Amounts at Fair Value | Amounts at Cost[1] | Total Carrying Value |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ - | $ - | $ 100.4 | $ 100.4 |
| Deposits with regulated financial institutions | - | - | - | - | 6.6 | 6.6 |
| Pledged trading assets | - | 81.8 | - | 81.8 | - | 81.8 |
| Reinvestment assets under the CMB and IMPP programs | - | 1,694.2 | - | 1,694.2 | - | 1,694.2 |
| Non-pledged trading assets | - | 2,620.9 | - | 2,620.9 | - | 2,620.9 |
| Derivative assets | - | 36.1 | - | 36.1 | - | 36.1 |
| Loans | - | - | - | - | 1,435.0 | 1,435.0 |
| Investment securities | - | 7,199.1 | 9.2 | 7,208.3 | 46.9 | 7,255.2 |
| Secured loans to members | - | - | 497.6 | 497.6 | - | 497.6 |
| Property and equipment | - | - | - | - | 16.5 | 16.5 |
| Intangible assets | - | - | - | - | 7.0 | 7.0 |
| Deferred tax assets | - | - | - | - | 6.5 | 6.5 |
| Investment in affiliates | - | - | - | - | 110.4 | 110.4 |
| Other assets | - | - | - | - | 319.6 | 319.6 |
| **Total assets** | $ - | $ 11,632.1 | $ 506.8 | $ 12,138.9 | $ 2,048.9 | $ 14,187.8 |
| **Liabilities** | | | | | | |
| Deposits designated as trading | $ - | $ 2,149.7 | $ - | $ 2,149.7 | $ - | $ 2,149.7 |
| Derivative liabilities | - | 196.0 | - | 196.0 | - | 196.0 |
| Debt securities issued | - | - | - | - | 1,085.0 | 1,085.0 |
| Deposits | - | - | - | - | 7,001.4 | 7,001.4 |
| Obligations under the CMB and IMPP programs | - | 2,341.7 | - | 2,341.7 | - | 2,341.7 |
| Subordinated liabilities | - | - | - | - | 170.4 | 170.4 |
| Provisions | - | - | - | - | 5.0 | 5.0 |
| Securities under repurchase agreements | - | - | - | - | 151.1 | 151.1 |
| Current tax liabilities | - | - | - | - | 3.1 | 3.1 |
| Deferred tax liabilities | - | - | - | - | 3.0 | 3.0 |
| Other liabilities | - | - | - | - | 240.0 | 240.0 |
| **Total liabilities** | - | 4,687.4 | - | 4,687.4 | 8,659.0 | 13,346.4 |
| **Net Assets (Liabilities)** | $ - | $ 6,944.7 | $ 506.8 | $ 7,451.5 | $ (6,610.1) | $ 841.4 |

[1]Amounts carried at amortized cost include financial instruments classified as held to maturity, loans and receivables or other liabilities.

There were no transfers of financial instruments between the different levels of the fair value hierarchy during the period.

| December 31, 2012 | Level 1 | Level 2 | Level 3 | Amounts at Fair Value | Amounts at Cost[1] | Total Carrying Value |
|---|---|---|---|---|---|---|
| Assets | $ - | $ 10,846.1 | $ 570.7 | $ 11,416.8 | $ 2,738.2 | $ 14,155.0 |
| Liabilities | - | 4,762.1 | - | 4,762.1 | 8,580.4 | 13,342.5 |
| **Net Assets (Liabilities)** | $ - | $ 6,084.0 | $ 570.7 | $ 6,654.7 | $(5,842.2) | $ 812.5 |

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

| | Fair Value at December 31, 2012 | Purchases | Settlements | Transfers | Changes in fair value of assets in profit or loss | Fair Value at March 31, 2013 |
|---|---|---|---|---|---|---|
| Secured loans to members | $ 561.5 | $ - | $ (62.8) | $ - | $ (1.1) | $ 497.6 |
| Equity shares | 9.2 | - | - | - | - | 9.2 |
| **Net Assets** | $ 570.7 | $ - | $ (62.8) | $ - | $ (1.1) | $ 506.8 |

| | Fair Value at January 1, 2012 | Purchases | Settlements | Transfers | Changes in fair value of assets in profit or loss | Fair Value at December 31, 2012 |
|---|---|---|---|---|---|---|
| **Net Assets** | $ 1,176.6 | $ - | $ (596.9) | $ - | $ (9.0) | $ 570.7 |

Note 23 sets out the fair value of the financial instruments in the interim consolidated statement of financial position.

## 5. Deposits with regulated financial institutions

Deposits with regulated financial institutions classified as loans and receivables are as follows:

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amortized cost | **$ 6,614** | $ 6,149 | $ 6,272 | $ 5,357 |
| Fair value | **$ 6,834** | $ 6,246 | $ 6,331 | $ 5,478 |

Deposits with regulated financial institutions classified as available-for-sale are as follows:

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amortized cost | **$ -** | $ - | $ 100,003 | $ - |
| Fair value | **$ -** | $ - | $ 100,003 | $ - |

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

(Thousands of dollars)

| **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| **$ 6,614** | $ 6,149 | $ 106,275 | $ 5,357 |

## 6. Trading assets

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

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Government & guarantees | **$ 1,355,401** | $ 2,179,000 | $ 1,431,450 | $ 2,370,661 |
| Corporate & financial institutions AA[1] or greater | **1,207,009** | 1,452,907 | 1,284,990 | 1,653,779 |
| Other | **140,342** | 71,003 | 98,086 | 25,920 |
| Fair value | **$ 2,702,752** | $ 3,702,910 | $ 2,814,526 | $ 4,050,360 |

[1] The credit ratings represent investment grade ratings provided by Dominion Bond Rating Services (DBRS).

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Amortized cost | **$ 2,611,472** | $ 3,573,053 | $ 2,708,564 | $ 3,870,667 |
| Fair value | **$ 2,702,752** | $ 3,702,910 | $ 2,814,526 | $ 4,050,360 |
| Less pledged trading assets | **(81,809)** | (33,720) | (135,572) | (51,652) |
| Non-pledged trading assets | **$ 2,620,943** | $ 3,669,190 | $ 2,678,954 | $ 3,998,708 |

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

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Trading assets | **$ 81,809** | $ 33,720 | $ 135,572 | $ 51,652 |
| Amounts included in investment securities | **77,178** | 143,692 | 58,905 | 7,656 |
| | **$ 158,987** | $ 177,412 | $ 194,477 | $ 59,308 |

## 7. Derivative assets and liabilities

The following tables summarize the fair value of derivative assets and liabilities:

(Thousands of dollars)

| | **March 31, 2013** | | March 31, 2012 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|---|---|
| | Asset | Liability | Asset | Liability | Asset | Liability | Asset | Liability |
| **Interest rate contracts** | | | | | | | | |
| Futures contracts | **$ 57** | **$ -** | $ 422 | $ 77 | $ 25 | $ 10 | $ 136 | $ 81 |
| Swap contracts | **158,544** | **318,584** | 213,120 | 357,767 | 169,076 | 350,988 | 294,422 | 464,729 |
| Options purchased | **79** | **-** | 479 | - | 218 | - | 21 | - |
| Options written | **-** | **98** | - | 384 | - | 264 | - | 21 |
| | **158,680** | **318,682** | 214,021 | 358,228 | 169,319 | 351,262 | 294,579 | 464,831 |
| **Foreign exchange contracts** | | | | | | | | |
| Foreign exchange forward contracts | **1,073** | **912** | 317 | 859 | 353 | 434 | 592 | 960 |
| **Other derivative contracts** | | | | | | | | |
| Equities | **15,307** | **15,307** | 15,476 | 15,476 | 14,338 | 14,338 | 16,122 | 16,122 |
| Total fair value before adjustment | **175,060** | **334,901** | 229,814 | 374,563 | 184,010 | 366,034 | 311,293 | 481,913 |
| Adjustment for master netting agreements | **(138,943)** | **(138,943)** | (201,939) | (201,939) | (149,992) | (149,992) | (269,946) | (269,946) |
| | **$ 36,117** | **$ 195,958** | $ 27,875 | $ 172,624 | $ 34,018 | $216,042 | $ 41,347 | $211,967 |

All derivatives are traded over-the-counter (OTC) except for futures contracts which are exchange traded.

The amounts that have been pledged and received as collateral are $130.3 million and $4.0 million respectively.

## 8. Loans

| | | (Thousands of dollars) | | | |
|---|---|---|---|---|---|
| | | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Due on demand | - Credit unions | **$ 35,670** | $ 21,224 | $ 80,977 | $ 22,848 |
| | - Commercial and others | **4,644** | 22,105 | 1,661 | 8,866 |
| | | **40,314** | 43,329 | 82,638 | 31,714 |
| Term | - Credit unions | **980,525** | 1,585,535 | 1,753,275 | 2,151,569 |
| | - Commercial and others | **186,945** | 186,124 | 187,392 | 183,293 |
| | - Reverse repurchase agreements | **210,424** | 50,919 | 11,485 | 105,285 |
| | - Officers and employees | **13,297** | 15,009 | 13,767 | 16,013 |
| | | **1,391,191** | 1,837,587 | 1,965,919 | 2,456,160 |
| | | **1,431,505** | 1,880,916 | 2,048,557 | 2,487,874 |
| Accrued interest | | **4,633** | 6,767 | 5,029 | 7,064 |
| | | **1,436,138** | 1,887,683 | 2,053,586 | 2,494,938 |
| Allowance for credit losses | | **(1,158)** | (11,489) | (1,584) | (12,526) |
| | | **$ 1,434,980** | $ 1,876,194 | $ 2,052,002 | $ 2,482,412 |

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 1.00% to 3.69%.

Impaired loans are as follows:

| | | | | (Thousands of dollars) | | | |
|---|---|---|---|---|---|---|---|
| | Gross Impaired | Specific Allowance | Collective Allowance | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Credit unions | **$ -** | **$ -** | **$ -** | **$ -** | $ - | $ - | $ - |
| Commercial and others | **1,158** | **(1,011)** | **(147)** | **-** | 81 | - | 1,171 |
| Total | **$ 1,158** | **$ (1,011)** | **$ (147)** | **$ -** | $ 81 | $ - | $ 1,171 |

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

(Thousands of dollars)

| | Specific Allowance | Collective Allowance | **For the period ended March 31, 2013** | For the period ended March 31, 2012 | For the year ended December 31, 2012 | As at January 1, 2012 |
|---|---|---|---|---|---|---|
| Balance at beginning of period | **$ 1,374** | **$ 210** | **$ 1,584** | $ 12,526 | $ 12,526 | $ 9,498 |
| Net write-offs during the period | **319** | **-** | **319** | (926) | (8,517) | (2,280) |
| Provision (recovery) for credit losses | **(682)** | **(63)** | **(745)** | (111) | (2,425) | 5,308 |
| Balance at end of period | **$ 1,011** | **$ 147** | **$ 1,158** | $ 11,489 | $ 1,584 | $ 12,526 |

## 9. Investment securities

Securities classified as held-to-maturity are as follows:

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amortized cost | **$ -** | $ - | $ - | $ 10,186 |
| Fair value | **$ -** | $ - | $ - | $ 10,033 |

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

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amortized cost | **$ 7,175,828** | $ 4,951,858 | $ 6,338,613 | $ 3,839,629 |
| Fair value | **$ 7,240,421** | $ 4,990,896 | $ 6,386,581 | $ 3,880,853 |

Securities classified as loans and receivables are as follows:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Amortized cost | **$ 14,820** | $ 18,663 | $ 17,519 | $ 50,620 |
| Fair value | **$ 14,820** | $ 18,663 | $ 17,519 | $ 50,620 |

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

| (Thousands of dollars) | | | |
|---|---|---|---|
| **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| **$ 7,255,241** | $ 5,009,559 | $ 6,404,100 | $ 3,941,659 |

The composition of Central 1's securities portfolio is as follows:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Government & guarantees | **$ 2,756,630** | $ 1,645,286 | $ 2,728,159 | $ 1,034,145 |
| Corporate & financial Institutions AA[1] or greater | **4,299,476** | 3,153,356 | 3,479,314 | 2,711,818 |
| Other | **199,135** | 210,917 | 196,627 | 195,696 |
| | **$ 7,255,241** | $ 5,009,559 | $ 6,404,100 | $ 3,941,659 |

(1) The credit ratings represent investment grade ratings provided by DBRS.

The above table includes **$32.1** million (March 31, 2012 - $32.1 million; December 31, 2012 - $32.1 million) of equity investment securities that are measured at cost and for which disclosure of fair value is not provided because the fair value cannot be reliably measured.

The above table also includes **$185.7** million of third-party MBS that were transferred to CHT under the CMB program as described in the significant accounting policies as dislcosed in Central 1's consolidated financial statements for the year end December 31, 2012.

At the period-end, securities having a par value of **$963.4** million (March 31, 2012 - $881.0 million; December 31, 2012 – $ 943.5 million) were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments.

## 10. Securitization transactions

The assets and liabilities related to Central 1's securitization transactions can be summarized as follows:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | March 31, 2013 | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| **Assets at Fair Value** | | | | |
| **Secured loans to members** | **$ 497,640** | **$ 1,025,627** | **$ 561,511** | **$ 1,167,423** |
| Securitizations prior to 2010 | | | | |
| Reinvestment assets classified as fair value through profit and loss | 583,453 | 1,543,592 | 633,944 | 1,570,583 |
| Reinvestment assets classified as fair value through OCI | 1,102,141 | 762,688 | 1,011,814 | 635,159 |
| Securitizations post 2009 | | | | |
| Reinvestment assets classified as fair value through profit and loss | 496 | - | 6,486 | - |
| Reinvestment assets classified as fair value through OCI | 8,110 | - | - | - |
| **Total reinvestment assets under the CMB and IMPP Programs** | **1,694,200** | **2,306,280** | **1,652,244** | **2,205,742** |
| **Assets recognized as non-pledged trading assets and investment securities** | | | | |
| MBS classified as fair value through OCI | 58,255 | 60,115 | 53,788 | - |
| MBS classified as fair value through profit and loss | 127,489 | - | 44,737 | - |
| | **185,744** | **60,115** | **98,525** | **-** |
| **Liabilities at Fair Value** | | | | |
| **Obligations under the CMB and IMPP Programs** | | | | |
| Securitizations prior to 2010 | 2,147,863 | 3,234,502 | 2,155,033 | 3,246,227 |
| Securitizations post 2009 | 193,792 | 60,316 | 104,959 | - |
| | **$ 2,341,655** | **$ 3,294,818** | **$ 2,259,992** | **$ 3,246,227** |

### (a) Securitizations prior to 2010

Through its participation in the CMB and IMPP programs prior to 2010 as described in the significant accounting policies disclosed in Central 1's consolidated financial statements for the year end December 31, 2012, Central 1 recognizes its interest in the underlying residential mortgages as secured loans from its member credit unions. The par amounts outstanding on these secured loans are as follows:

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Total amount of secured loans issued | **$ 4,240,559** | $ 4,240,559 | $ 4,240,559 | $ 4,240,559 |
| Aggregate principal payments received | **(3,746,737)** | (3,227,995) | (3,684,253) | (3,091,044) |
| Remaining par value of secured loans to members in the Statement of financial position | **$ 493,822** | $ 1,012,564 | $ 556,306 | $ 1,149,515 |

The components of these balances are as follows:

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Remaining par value of secured loans under the CMB and IMPP programs | **$ 247,382** | $ 604,708 | $ 284,135 | $ 698,405 |
| Remaining par value of secured loans retained by Central 1 | **246,440** | 407,856 | 272,171 | 451,110 |
| | **$ 493,822** | $ 1,012,564 | $ 556,306 | $ 1,149,515 |

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

| | | | | |
|---|---|---|---|---|
| Amortized cost | **$ 495,675** | $ 1,017,465 | $ 558,481 | $ 1,155,428 |
| Fair value | **$ 497,640** | $ 1,025,627 | $ 561,511 | $ 1,167,423 |

*Valuation of secured loans to members*

Key inputs into the model used to determine the fair value of secured loans to members include interest rates and mortgage prepayment rates. There is also an interrelationship between the level of interest rates and the mortgage prepayment rate for example in an environment where interest rates are on a downward trend, the prepayment rate generally tends to increase as mortgages are refinanced. The following table summarizes the pre-tax impact of a sustained 200 basis points increase or decrease in interest rates and a 1% increase or decrease in prepayment rates used to determine the fair value of secured loans and equity.

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **As at March 31, 2013** | As at March 31, 2012 | As at December 31, 2012 | As at January 1, 2012 |
| ***Change in value of secured loans to members:*** | **Increase (Decrease)** | Increase (Decrease) | Increase (Decrease) | Increase (Decrease) |
| 200 bps parallel increase in interest rates | **$ (747)** | $ (3,502) | $ (1,164) | $ (5,306) |
| 200 bps parallel decrease in interest rates | **793** | 3,647 | 1,230 | 5,525 |
| 1% increase in prepayment rate | **(13)** | (70) | (21) | (102) |
| 1% decrease in prepayment rate | **13** | 70 | 21 | 102 |

A change in the mortgage prepayment rate changes the expected principal and interest cash flows of the secured loans.

As principal and interest payments on the underlying Legacy securitized assets are received, Central 1 is required to reinvest those assets on behalf of CHT and CMHC. These Reinvestment assets, which are recognized in the interim consolidated statement of financial position at fair value, are as follows:

Reinvestment assets under the CMB IMPP Programs classified as at fair value through profit and loss:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Government & guarantees | **$ 297,229** | $ 1,375,529 | $ 485,104 | $ 1,515,037 |
| Assets acquired under reverse repurchase agreements | **286,224** | 168,063 | 148,840 | 55,546 |
| Fair value | **$ 583,453** | $ 1,543,592 | $ 633,944 | $ 1,570,583 |
| Amortized cost | **$ 581,855** | $ 1,535,971 | $ 631,640 | $ 1,558,061 |

Reinvestment assets under the CMB and IMPP Programs classified as at available-for-sale and measured through other comprehensive income:

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Government & guarantees | **$ 1,102,141** | $ 762,688 | $ 1,011,814 | $ 585,373 |
| Assets acquired under reverse repurchase agreements | **-** | - | - | - |
| Other | **-** | - | - | 49,786 |
| Fair value | **$ 1,102,141** | $ 762,688 | $ 1,011,814 | $ 635,159 |
| Amortized cost | **$ 1,101,251** | $ 758,915 | $ 1,010,630 | $ 630,518 |
| Fair value of total assets relating to the securitization program prior to 2010 | **$ 2,183,234** | $ 3,331,907 | $ 2,207,269 | $ 3,373,165 |

Central 1 has entered into derivative contracts to modify its exposure to interest rate risk under the programs which are recognized as derivatives in the interim consolidated statement of financial position.

Central 1 has recognized its obligations to CHT under the CMB program and to CMHC under the IMPP program at fair value in the statement of financial position. The contractual maturity dates of these obligations are as indicated below.

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amount due within one year | **$ 1,782,789** | $ 1,009,649 | $ 1,603,436 | $ 1,009,649 |
| Amount due after one year and less than five years | **328,146** | 2,110,936 | 507,498 | 2,110,936 |
| | **2,110,935** | 3,120,585 | 2,110,934 | 3,120,585 |
| Accrued interest | **11,958** | 26,617 | 7,972 | 11,377 |
| Amortized cost | **$ 2,122,893** | $ 3,147,202 | $ 2,118,906 | $ 3,131,962 |
| Fair value | **$ 2,147,863** | $ 3,234,502 | $ 2,155,033 | $ 3,246,227 |

**(b) Securitizations post 2009**

Through its participation in the CMB program post 2009 as described in the significant accounting policies disclosed in Central 1's consolidated financial statements for the year ended December 31, 2012, Central 1 recognizes its interest in the underlying assets as non-pledged trading assets and investment securities. The non-pledge trading and investment securities are as follows:

MBS classified as fair value through other comprehensive income:

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Carrying Value | **$ 58,255** | $ 60,115 | $ 53,788 | $ - |
| Amortized cost | **$ 57,801** | $ 59,995 | $ 53,537 | $ - |
| Fair value | **$ 58,255** | $ 60,115 | $ 53,788 | $ - |

MBS classified as fair value through profit or loss:

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Carrying Value | **$ 127,489** | $ - | $ 44,737 | $ - |
| Amortized cost | **$ 126,916** | $ - | $ 44,774 | $ - |
| Fair value | **$ 127,489** | $ - | $ 44,737 | $ - |

As principal and interest payments on the underlying post 2009 securitized assets are received, Central 1 is required to reinvest those assets on behalf of CHT and CMHC. These Reinvestment assets, which are recognized in the interim consolidated statement of financial position at fair value, are as follows:

Reinvestment assets under the Post 2009 CMB and IMPP programs classified as at fair value through profit and loss:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Government & guarantees | **$ -** | $ - | $ 6,486 | $ - |
| Assets acquired under reverse repurchase agreements | **496** | - | - | - |
| Fair value | **$ 496** | $ - | $ 6,486 | $ - |
| Amortized cost | **$ 496** | $ - | $ 6,477 | $ - |

Reinvestment assets under the Post 2009 and IMPP programs classified as at fair value through other comprehensive income:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Government & guarantees | **$ 8,110** | $ - | $ - | $ - |
| Assets acquired under reverse repurchase agreements | **-** | - | - | - |
| Fair value | **$ 8,110** | $ - | $ - | $ - |
| Amortized cost | **$ 8,070** | $ - | $ - | $ - |
| Fair value of total assets relating to the securitization program post 2009 | **$ 194,350** | $ 60,115 | $ 105,011 | $ - |

Central 1 has recognized its obligations to CHT under the CMB program at fair value in the statement of financial position. The contractual maturity dates of these obligations are as indicated below.

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Amount due after one year and less than five years | **$ 103,786** | $ 59,952 | $ 103,786 | $ - |
| Amount due after five years | **87,310** | - | - | - |
| | **191,096** | 59,952 | 103,786 | - |
| Accrued interest | **546** | (23) | 53 | - |
| Amortized cost | **$ 191,642** | $ 59,929 | $ 103,839 | - |
| Fair value | **$ 193,792** | $ 60,316 | $ 104,959 | $ - |

## 11. Other assets

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Settlements in-transit | **$ 301,057** | $ 164,094 | $ 279,491 | $ 436,563 |
| Assets available for sale at amortized cost | **-** | 5,236 | - | 5,977 |
| Investment property | **5,920** | 6,289 | 6,012 | 6,381 |
| Prepaid expenses | **5,391** | 5,356 | 2,961 | 2,950 |
| Post-employment benefits | **-** | 207 | - | 196 |
| Accounts receivable and other | **7,070** | 3,637 | 5,767 | 1,618 |
| | **$ 319,438** | $ 184,819 | $ 294,231 | $ 453,685 |

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

## 12. Deposits designated as trading

Deposits designated as trading are as follows:

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amortized cost | **$ 2,138,404** | $ 1,929,080 | $ 2,275,998 | $ 2,013,781 |
| Fair value | **$ 2,149,715** | $ 1,944,973 | $ 2,286,078 | $ 2,034,219 |

The contractual maturity dates of these liabilities are as follows:

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amount | | | | |
| - due within three months | **$ 279,267** | $ 171,096 | $ 299,315 | $ 89,286 |
| - due after three months and within one year | **784,271** | 649,522 | 817,942 | 622,843 |
| - due after one year and less than five years | **1,056,478** | 1,089,042 | 1,140,414 | 1,284,819 |
| | **2,120,016** | 1,909,660 | 2,257,671 | 1,996,948 |
| Accrued interest | **18,388** | 19,420 | 18,327 | 16,833 |
| Amortized cost | **$ 2,138,404** | $ 1,929,080 | $ 2,275,998 | $ 2,013,781 |

## 13. Debt securities issued

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Notes | | | | |
| - due within three months | **$ 812,043** | $ 389,442 | $ 487,241 | $ 149,354 |
| - due after three months and within one year | **-** | 9,970 | 412,330 | - |
| - due after one year and less than five years | **269,444** | 224,696 | 269,480 | 224,625 |
| | **1,081,487** | 624,108 | 1,169,051 | 373,979 |
| Accrued interest | **3,530** | 3,428 | 1,753 | 1,537 |
| | **$ 1,085,017** | $ 627,536 | $ 1,170,804 | $ 375,516 |

Central 1 has established **$84.9** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At March 31, 2013, March 31, 2012 and December 31, 2012, no amounts were drawn against these facilities.

Central 1 is authorized to issue up to $1.5 billion in short-term commercial paper and up to $1.5 billion in other borrowings which includes Central 1's medium-term note facility. At March 31, 2013, **$500.0** million was borrowed under the short-term commercial paper facility (March 31, 2012 - $400.0 million; December 31, 2012 - $588.0 million; January 1, 2012 - $149.5 million) and **$582.9** million was borrowed under the medium-term note facility (March 31, 2012 - $225.0 million; December 31, 2012 - $582.9 million; January 1, 2012 - $225.0 million).

## 14. Deposits

Deposits classified as other liabilities are as follows:

(Thousands of dollars)

| | March 31, 2013 | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Amount | | | | |
| - Due on demand | **$ 1,309,393** | $ 1,149,683 | $ 951,469 | $ 1,016,528 |
| - Due within three months | **1,403,894** | 2,015,795 | 1,424,996 | 2,231,578 |
| - Due after three months and within one year | **1,340,159** | 1,560,943 | 1,342,227 | 1,893,371 |
| - Due after one year and less than five years | **2,909,609** | 2,236,959 | 2,806,894 | 1,969,499 |
| - Due after five years and less than six years | **-** | - | - | 375 |
| | **6,963,055** | 6,963,380 | 6,525,586 | 7,111,351 |
| Accrued interest | **38,320** | 41,887 | 38,750 | 43,300 |
| | **$ 7,001,375** | $ 7,005,267 | $ 6,564,336 | $ 7,154,651 |

## 15. Subordinated liabilities

(Thousands of dollars)

| | March 31, 2013 | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Series 2 | **$ 150,000** | $ 150,000 | $ 150,000 | $ 150,000 |
| Series 3 | **18,000** | 18,000 | 18,000 | 18,000 |
| Principal amount | **168,000** | 168,000 | 168,000 | 168,000 |
| Accrued interest | **2,411** | 2,139 | 859 | 567 |
| | **$ 170,411** | $ 170,139 | $ 168,859 | $ 168,567 |

On October 9, 2009, Central 1 issued $150 million principal amount of 4.00% Series 2 Subordinated Notes due October 9, 2019. The notes bear interest at a fixed rate of 4.00% until, but excluding, October 9, 2014, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 2.40%. Central 1 has the option to redeem the notes on October 9, 2014, subject to regulatory approval.

On July 6, 2011, Central 1 issued $18 million principal amount of series 3 notes due July 6, 2021. The notes bear interest at a floating rate based on 90-day Bankers' Acceptance plus 10 basis points, payable quarterly until July 6, 2016, and Central 1 has the option to redeem the outstanding notes in whole or in part on July 6, 2016, subject to regulatory approval.

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

## 16. Other liabilities

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Settlements in-transit | **$ 190,195** | $ 333,791 | $ 417,089 | $ 554,478 |
| Post-employment benefits | **22,125** | 21,044 | 21,913 | 20,707 |
| Short-term employee benefits | **7,317** | 6,666 | 6,544 | 5,841 |
| Long-term employee benefits | **2,096** | - | - | - |
| Dividends payable | **3,148** | 2,935 | 3,034 | 5,251 |
| Unearned insurance premiums | **3,426** | 5,009 | 668 | 864 |
| Finance leases | **1,178** | 1,178 | 1,178 | 1,178 |
| Trade amounts and other | **10,561** | 12,918 | 13,570 | 14,605 |
| | **$ 240,046** | $ 383,541 | $ 463,996 | $ 602,924 |

## 17. Share Capital

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

In the event of liquidation, dissolution or winding-up, any surplus, profits or assets of Central 1 shall be distributed proportionately among all shareholders.

The allocation of Class A shares is based on the assets of each credit union in proportion to the combined assets of the B.C. credit union system and the assets of Central 1's member credit unions in Ontario. This allocation is adjusted periodically to reflect changes in credit union assets. On matters concerning Central 1's role as a trade association, Class A members are entitled to one vote for every 100 of their members. Each Class B and C shareholder has one vote on certain issues.

The numbers of shares issued are as follows:

| | (Thousands of shares) | | |
|---|---|---|---|
| | **For the three months ended March 31, 2013** | For the three months ended March 31, 2012 | For the year ended December 31, 2012 |
| Class A – credit unions | | | |
| Balance at beginning of period | **290,255** | 272,018 | 272,018 |
| Issued for cash during the period | **3,033** | 5,248 | 18,279 |
| Redeemed during the period | **(2)** | (20) | (42) |
| Balance at end of period | **293,286** | 277,246 | 290,255 |
| Class B – co-operatives | | | |
| Balance at beginning and end of period | **5** | 5 | 5 |
| Class C – other | | | |
| Balance at beginning of period | **7** | 7 | 7 |
| Issued for cash during the period | **-** | 1 | - |
| Balance at end of period | **7** | 8 | 7 |
| Class E – credit unions | | | |
| Balance at beginning and end of period | **3,159** | 3,159 | 3,159 |

The amounts outstanding are as follows:

| | (Thousands of dollars) | | | |
|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
| Outstanding $1 par value shares | | | | |
| Class A – credit unions | **$ 293,286** | $ 277,246 | $ 290,255 | $ 272,018 |
| Class B - cooperatives | **5** | 5 | 5 | 5 |
| Class C - other | **7** | 8 | 7 | 7 |
| Outstanding $0.01 par value shares | | | | |
| Class E – credit unions | **32** | 32 | 32 | 32 |
| | **$ 293,330** | $ 277,291 | $ 290,299 | $ 272,062 |

## 18. Gain on disposal of financial instruments

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

| | (Thousands of dollars) | |
|---|---|---|
| | **Three months ended March 31, 2013** | Three months ended March 31, 2012 |
| Net gain on disposal of trading assets | **$ 24,119** | $ 33,939 |
| Net gain on disposal of investment securities | **5,043** | 1,566 |
| Net loss on disposal of derivatives | **(23,505)** | (4,035) |
| Net loss on disposal of deposits | **(12)** | (498) |
| | **$ 5,645** | $ 30,972 |

## 19. Change in fair value of financial instruments

(Thousands of dollars)

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 |
|---|---|---|
| Trading assets | **$ (14,563)** | $ (49,836) |
| Activities under the CMB and IMPP programs | | |
| Reinvestment assets | **(691)** | (5,770) |
| Derivative assets and liabilities | **(7,164)** | (15,350) |
| Secured loans to members | **(1,065)** | (3,833) |
| Obligations to CHT and CMHC | **10,128** | 26,578 |
| Derivative assets and liabilities | **29,083** | 41,680 |
| Trading deposits | **(1,232)** | 4,545 |
| | **$ 14,496** | $ (1,986) |

## 20. Other income

| | (Thousands of dollars) | |
|---|---|---|
| | **Period ended March 31, 2013** | Period ended March 31, 2012 |
| Membership dues | **$ 2,156** | $ 2,074 |
| Provincial advertising assessment | **454** | 250 |
| Equity interest in affiliates | **1,852** | 825 |
| Insurance premiums and assessments | **1,236** | 1,751 |
| Technology and payment services | | |
| - Processing | **9,957** | 9,643 |
| - Direct banking | **5,766** | 4,640 |
| Wholesale financial services | | |
| - Treasury services | **901** | 1,361 |
| - Funding and commercial lending | **1,379** | 1,023 |
| - Employee benefits & retirement services | **290** | 264 |
| - Trust services | **537** | 528 |
| - Other | **770** | 539 |
| Trade and other services | | |
| - Product compliance and design | **417** | 369 |
| - Property rents | **245** | 241 |
| - Risk management | **598** | 589 |
| - Marketing products & programs | **514** | 426 |
| - Research | **126** | 329 |
| - Other | **226** | 155 |
| | **$ 27,424** | $ 25,007 |

## 21. Provision for income taxes

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

| | (Thousands of dollars) | |
|---|---|---|
| | **Period ended March 31, 2013** | Period ended March 31, 2012 |
| Provision for income taxes in statements of profit or loss | **$ 2,948** | $ 4,803 |
| Income tax benefit related to dividends accrued and share redemptions | **(441)** | (412) |
| Total | **$ 2,507** | $ 4,391 |

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

| | | |
|---|---|---|
| Current income taxes | **$ 2,985** | $ 4,150 |
| Deferred income taxes (recovery) | **(37)** | 653 |
| Total | **$ 2,948** | $ 4,803 |

Central 1's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of **30.5 %** (2012 – 30.5%) to income before taxes. The reasons for this are as follows:

| | **Period ended March 31, 2013** | Period ended March 31, 2012 |
|---|---|---|
| | **%** | % |
| Combined federal and provincial statutory income tax rates | **30.5** | 30.5 |
| Reduction available to credit unions | **(17.0)** | (17.0) |
| Other | **(0.6)** | (0.1) |
| | **12.9** | 13.4 |

## 22. Guarantees, commitments and contingencies

Central 1 is a Group Clearer under the rules of the Canadian Payments Association (CPA) and acts as the credit union systems' financial institution connection to the Canadian payments system. Pursuant to a cost sharing agreement, Central 1 provides payment services to the credit union centrals of Alberta, Manitoba, and Saskatchewan (the Prairie Centrals). Central 1 guarantees payment of payment items drawn on or payable by the Prairie Centrals and their member credit unions. Each of the Prairie Centrals in return provides Central 1 with a guarantee for those payments.

Central 1 is exposed to risk as a party to off-balance sheet financial instruments. These instruments include guarantees such as standby letters of credit as well as commitments to accept deposits at agreed rates and terms.

(Thousands of dollars)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|
| Standby letters of credit | **$ 189,610** | $ 188,755 | $ 216,353 | $ 183,434 |
| Commitments to extend credit | **$ 3,228,283** | $ 3,607,531 | $ 3,272,393 | $ 3,185,384 |

Central 1 is involved in legal actions in the ordinary course of business, in which the likelihood of a loss and amount of loss, if any, is not readily determinable.

## 23. Financial instruments - Fair value

The following table sets out the fair values of on-balance sheet and derivative instruments of Central 1 using the valuation methods and assumptions described in Note 4. Fair values have not been attributed to assets and liabilities that are not considered financial instruments, such as property and equipment.

| (Millions of dollars) | Fair Value | | Carrying Value | | Unrealized Gain (Loss) | |
|---|---|---|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | **March 31, 2013** | March 31, 2012 | **March 31, 2013** | March 31, 2012 |
| **Assets** | | | | | | |
| Cash and cash equivalents | **$ 100.4** | $ 254.8 | **$ 100.4** | $ 254.8 | **$ -** | $ - |
| Deposits with regulated financial institutions[2] | **6.8** | 6.3 | **6.6** | 6.2 | **0.2** | 0.1 |
| Investment securities[2] | **9,958.1** | 8,712.6 | **9,957.9** | 8,712.5 | **0.2** | 0.1 |
| Reinvestment assets under the CMB and IMPP programs | **1,694.2** | 2,306.3 | **1,694.2** | 2,306.3 | **-** | - |
| Derivative assets | **36.1** | 27.9 | **36.1** | 27.9 | **-** | - |
| Loans[3] | **1,437.61** | 1,881.3 | **1,435.0** | 1,876.2 | **2.6** | 5.1 |
| Secured loans to members | **497.6** | 1,025.6 | **497.6** | 1,025.6 | **-** | - |
| Other assets | **460.0** | 326.0 | **460.0** | 326.0 | **-** | - |
| **Liabilities** | | | | | | |
| Deposits designated as trading | **2,149.7** | 1,945.0 | **2,149.7** | 1,945.0 | **-** | - |
| Derivative liabilities | **196.0** | 172.6 | **196.0** | 172.6 | **-** | - |
| Debt securities issued[2] | **1,086.4** | 631.4 | **1,085.0** | 627.5 | **(1.4)** | (3.9) |
| Deposits from members[2] | **7,041.8** | 7,043.5 | **7,001.4** | 7,005.3 | **(40.4)** | (38.2) |
| Obligations under the CMB and the IMPP programs | **2,341.7** | 3,294.8 | **2,341.7** | 3,294.8 | **-** | - |
| Subordinated liabilities[2] | **174.8** | 175.1 | **170.4** | 170.1 | **(4.4)** | (5.0) |
| Securities under repurchase agreements | **151.1** | 172.9 | **151.1** | 172.9 | **-** | - |
| Other liabilities | **251.1** | 391.8 | **251.1** | 391.8 | **-** | - |
| Equity | **841.4** | 755.5 | **841.4** | 755.5 | **-** | - |
| **Total** | | | | | **$ (43.2)** | $ (41.8) |

[2] Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 2 inputs
[3] Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 3 inputs

## 24. Capital management

Central 1's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions and provincial regulations administered by the Financial Institutions Commission of British Columbia. Pursuant to federal regulations, Central 1 is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Central 1 targets an operating borrowing multiple of 15.0:1 to 17.0:1 to ensure that it has capacity to absorb sudden increases in system deposits or to increase external borrowings to meet member demand for funds.

Provincial regulations, which apply to Central 1, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings, which generally parallel the methodology used by OSFI to regulate Canadian chartered banks, require Central 1's risk-weighted capital, calculated by dividing capital by risk-weighted assets, to be no less than 8 per cent. Furthermore, Central 1 must maintain a risk-weighted capital ratio of at least 10 per cent to enable member credit unions in British Columbia to risk-weight their deposits with Central 1 at zero per cent. Central 1 targets a risk-weighted capital ratio of at least 15 per cent.

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

At period-end, Central 1 was in compliance with these regulatory requirements.

## 25. Related parties

*Transactions with key management personnel*

Key management personnel include Central 1's Executive management and Vice-Presidents. Key management personnel and their immediate relatives have transacted with Central 1 during the period as follows:

| | (Thousands of dollars) | |
|---|---|---|
| | **March 31, 2013** | March 31, 2012 |
| Mortgage loans outstanding at end of period | **$ 1,396** | $ 949 |
| Maximum mortgage loans outstanding during the period | **$ 1,412** | $ 1,345 |

Mortgage loans to key management personnel bear interest at rates ranging from 2.5% to 2.84% and are secured over property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at period end.

Key management personnel compensation for the period comprised:

(Thousands of dollars)

| | **Period ended March 31, 2013** | Period ended March 31, 2012 |
|---|---|---|
| Salaries and short-term employee benefits | **$ 686** | $ 1,377 |
| Post-employment benefits | **70** | 72 |
| Termination benefits | **2,833** | - |
| | **$ 3,589** | $ 1,449 |

Termination benefits represent accruals for amounts payable, pursuant to contractual arrangements, to members of key management personnel who announced their intention to leave Central 1 during the quarter.

In addition to their salaries, Central 1 also provides non-cash benefits to key management personnel and contributes to post-employment defined plans on their behalf.

*Board of directors*

During the period, the members of Central 1's Board of directors received aggregate remuneration of **$202** thousand (period ended March 31, 2012 - $114 thousand).

*Significant Subsidiaries*

(% ownership of common shares outstanding)

| | **March 31, 2013** | March 31, 2012 | December 31, 2012 |
|---|---|---|---|
| Central 1 Trust Company | **100%** | 100% | 100% |
| Central Risk and Insurance Management Services Inc. | **100%** | 100% | 100% |
| CUPP Services Ltd. | **100%** | 100% | 100% |
| Stabilization Fund Corporation | **100%** | 100% | 100% |

CUPP Services Ltd., subject to the approval of its Board of Directors, may declare patronage dividends to distribute some, or all, of its excess of revenue over expenditures during the period. Central 1 participates in this patronage dividend in proportion to its use of services provided by CUPP Services Ltd., with the remainder issued to holders of the Non-Controlling Interest of CUPP Services Ltd.

The net assets of Stabilization Fund Corporation are retained for use by Central 1's member credit unions in Ontario, and as such, Stabilization Fund Corporation does not declare or pay dividends.

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

*Investments in affiliates*

Central 1 accounts for its interests in the following entities using the equity method of accounting:

| | (% ownership of common shares outstanding) | | |
|---|---|---|---|
| | **March 31, 2013** | March 31, 2012 | December 31, 2012 |
| Credential Financial Inc. | **40%** | 40% | 40% |
| Credit Union Central of Canada (CUCC) | **51%** | 50% | 50% |
| CUMIS Group Limited | **27%** | 27% | 27% |

## 26. Subsequent event

The 2013 federal budget announced on March 21, 2013 proposes to phase out the deduction available to credit unions which provides access to the preferential income tax rate for income that is not eligible for the small business deduction. This amendment was substantively enacted subsequent to the end of the quarter.

The impact on future periods cannot be determined at this time.