Central 1

Second Quarter Report 2012

REPORT TO MEMBERS

CENTRAL REPORTS RESULTS FOR SECOND QUARTER OF 2012

Second quarter highlights compared to the same period last year:

- Central's Profit for the period of $4.0 million, compared to a Profit of $9.7 million
- Central's Return on equity of 2.1%, compared to 6.3%
- Central's assets of $14.6 billion, down 2.7% from $15.0 billion
- B.C. system[1] Net operating income[2] of $94.5 million, versus $99.0 million
- B.C. system assets of $55.5 billion, up 5.1% from $52.8 billion
- Ontario system(3) Net operating income(2) of $28.0 million, versus $33.6 million
- Ontario system assets of $28.2 billion, up 10.2% from $25.6 billion.

Central recorded Net financial income of $5.4 million and Profit of $4.0 million during the second quarter, compared to Net financial income of $17.1 million and Profit of $9.7 million respectively, during the same period last year. Central's Other income was $27.4 million, an increase of $2.1 million over the same period last year, while Operating expenses decreased by $3.1 million to $27.6 million. Assets, at $14.6 billion, decreased 2.7% from $15.0 billion as at June 30, 2011.

At quarter-end, Central's borrowing multiple for federal capital adequacy purposes was 14.7:1, while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes was at 35.4%.

Financial markets remained volatile during the quarter with investors once again shunning risky assets as economic data disappointed and the stabilizing effect of the European Central Bank's (ECB) Long Term Refinancing Operation (LTRO) wore off. The European Union (EU) approved a 100 billion euro capital injection in an attempt to recapitalize the Spanish banking system and kickstart the economy. Credit spreads widened and the five year Government of Canada bond yields fell to a record low. The Canadian dollar weakened nearly two cents to end the quarter below parity with the U.S. dollar.

The Bank of Canada struck a more hawkish tone on interest rates in April stating that removing monetary stimulus may become appropriate given the narrowing output gap and their belief that the European debt crisis will have abated significantly by the second half of the year. However, by the end of the quarter, sentiment had changed, with the market pricing in a significant probability of a rate cut by year end. In contrast to the general economy, the housing market remained buoyant, particularly in the Greater Toronto Metropolitan area, resulting in the Federal Government introducing new rules on mortgage lending, designed to have a dampening effect on the housing market.

The United States economy is growing at a relatively steady 2.0% pace in the midst of a European recession and a slowdown in emerging economies while the housing market continues to improve gradually. However, leading economic indicators suggest weaker growth lies ahead and interest rates are expected to remain low. Canada's economic performance remains largely tied to the U.S. with recent indicators pointing to slower growth in real GDP, although the underlying trend remains at an annual rate of 2.0% to 2.5%.

The trends in the wider economy were also reflected in British Columbia (B.C.) and Ontario. B.C.'s labour market grew more robustly in the second quarter, while housing market activity slowed to its lowest level in two years. The unemployment rate declined from 6.9% to 6.7%.

Economic growth slowed in Ontario in the second quarter, with estimated second quarter growth at 1.0% annualized, down from 2.3% in the first quarter. Growth in labour and housing markets also slowed from the first quarter while the unemployment rate rose from 7.7% to 7.8%.

The B.C. system earned $94.5 million before taxes, dividends and patronage refunds in the second quarter of 2012, down 4.5% from the $99.0 million earned during the same period in 2011. Combined assets of the B.C. system in the same period rose 5.1%, year-over-year, to reach $55.5 billion at quarter-end.

The Ontario system earned $28.0 million before taxes, dividends and patronage refunds in the second quarter, down from the $33.6 million during the same period in 2011. Combined assets of the Ontario system in the same period rose 10.2%, year-over-year, to reach $28.2 billion at quarter-end.

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

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

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

Management’s Discussion and Analysis
as at June 30, 2012

This portion of the Report to Members updates Central 1 Credit Union’s (Central) Management’s Discussion and Analysis (MD&A) for the year ended December 31, 2011, and provides a discussion and analysis of Central’s financial condition and results of operations for the three month period ended June 30, 2012, compared to the corresponding period in the preceding fiscal year. Additional information on Central, including its Annual Information Form, may be found on SEDAR at www.sedar.com.

Except as otherwise indicated, financial information for Central included in this MD&A has been prepared in accordance with Central’s basis of preparation and its accounting policies as contained in Notes 2 and 3 of Central’s interim consolidated financial statements for the three months ended June 30, 2012 which may be found on SEDAR at www.sedar.com.

Caution Regarding Forward-Looking Statements

From time to time, Central makes written and/or oral forward looking statements, including in this document, and in other communications. In addition, representatives of Central may make forward-looking statements orally to analysts, investors, the media and others. All such statements are intended to be forward-looking statements under applicable Canadian securities legislation.

Forward-looking statements, by their nature, require Central to make assumptions and are subject to inherent risk and uncertainties. Especially in light of the uncertainty related to the financial, economic and regulatory environments, such risks and uncertainties – many of which are beyond Centrals’ control and the effects of which can be difficult to predict- may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Central’s MD&A for the year ended December 31, 2011 provides information on risk factors to which Central is exposed including industry specific risks, credit, liquidity, market, insurance and operational risks. There have been no substantial changes in Central’s risk profile or in its management of risk as described in Central’s Management Discussion and Analysis for the year ended December 31, 2011.

Further information is included in the Risk Management section below.

The risk factors described herein are not intended to be exhaustive and other factors may adversely impact Central’s results. Central does not undertake to update forward-looking statements except as required by applicable securities legislation.

Overall Performance and Interim Financial Condition

During the second quarter of 2012, Central recorded a Profit of $4.0 million or 1.4 cents per share, compared to a Profit of $9.7 million or 5.8 cents per share last year.

Net financial income was $5.4 million compared with $17.1 million posted in the second quarter of 2011.

Financial markets remained volatile during the quarter as investor risk appetite waned due to continuing concerns about Europe and disappointing economic data pointing to a global economic slowdown. Canadian government bond yields fell, with the five year yield hitting a record low as investors shifted out of riskier assets into government bonds. Credit spreads on provincial and bank debt, which had sharply narrowed in the first quarter, widened while interest rate swap spreads remained relatively unchanged.

As Central is a purchaser of provincial and corporate bonds and pays fixed rates on interest rate swaps to neutralize its exposure to interest rates, these market developments had a net unfavourable impact on Central's income. Notes 18 and 19 of Central's interim consolidated financial statements indicate that Central had realized gains of $22.3 million and unrealized losses of $27.1 million resulting in a net loss of $4.8 million during the second quarter, compared to net gains of $2.6 million the previous year.

Interest margin for the quarter was $10.1 million, down from $14.6 million during the three months ended June 30, 2011. During the past year average yields on both Central's assets and its liabilities have both declined, reflecting the prevailing low interest rate environment. During that period, yields on Central's investment portfolio have declined more sharply than deposit yields reflecting Central's decision to decrease its risk exposures.

The decrease in interest rates during the quarter led to mark-to-market gains on Central's securities portfolio, although gains were reduced by the impact of widening credit spreads. Meanwhile, the decrease in interest rates had a negative impact on the derivatives portfolio, partially mitigated by the widening of interest rate swap spreads.

Other income of $27.4 million for the quarter was higher than the $25.3 million earned in the second quarter of 2011. Note 20 of Central's interim consolidated financial statements provides details of the income earned in Central's various operating areas. Quarterly Operating expenses were $27.6 million, down from $30.7 million in 2011. Lower operating costs during the second quarter of 2012 reflect certain cost saving initiatives undertaken by Central beginning in 2011.

Central's capital ratios remain well within statutory limits. Central's borrowing multiple decreased from 15.3:1 at December 31, 2011 to 14.7:1 at quarter-end, primarily due to a higher level of retained earnings. At the quarter-end, Central's risk-weighted capital ratio was 35.4% compared to 34.8% at December 31, 2011.

During the third quarter of 2011, Central made a call for capital from its Class A member credit unions. The call was completed on October 31, 2011 and resulted in an increase in Central's Share capital of $100 million. Further details are provided in the Capital Resources section below.

B.C. System

B.C. system net operating income for the quarter was $94.5 million, compared to $99.0 million for the second quarter of 2011. Non-financial income and expense decreased by 9.7% and 1.6% respectively from the same period last year, while B.C. system interest margin increased by 0.1% or $0.4 million year-over-year. The B.C. system's regulatory risk-weighted capital was 14.4%, a decrease from 14.6% a year ago.

Demand for loans remained strong, with total B.C. system net loans increasing by 8.2% year-over-year to reach $47.2 billion while deposits grew by 4.3% to $48.7 billion. Asset growth was mainly concentrated in residential mortgages which grew by 11.1% from a year ago. B.C. system loan delinquencies over 90 days decreased to 0.47% of total loans compared to 0.65% a year ago. System provisions for credit losses as a percentage of average loans were 0.39% as of June 30, 2012, a decrease from 0.52% one year earlier.

The excess of loan growth over deposit growth was primarily funded by a reduction in liquid assets which led to lower liquidity levels within the B.C. system. Overall liquidity, including that held by Central, was 13.7% of deposit and debt liabilities, down from 16.5% a year ago. Deposits with credit unions grew year-over-year by 4.3%, below loan growth of 8.2%. Holdings of liquid assets decreased by 12.1% year-over-year, while borrowings from Central and other lenders increased by 15.2%.

Ontario System

Ontario system net operating income for the quarter was $28.0 million, compared to $33.6 million for the second quarter of 2011. Non-financial income was up 4.4% or $1.7 million from the same period last year, while non-financial expense increased 9.5% year-over-year. Ontario system interest margin increased by 8.8% or $14.0 million, year-over-year while regulatory risk-weighted capital at 13.3% was unchanged from a year ago.

Demand for loans grew faster than deposits, as total Ontario system loans increased by 12.4% year-over-year to reach $23.7 billion while deposits grew by 6.8% to $24.1 billion. Residential mortgages grew by 15.4% from a year ago while commercial loans grew by 11.3% and personal loans decreased by 1.6%, year-over-year.

Credit quality of loan portfolios improved over the past year as loan delinquencies over 90 days were 0.58% at June 30, 2012 compared to 0.75% a year ago. System provisions for credit losses as a percentage of loans have decreased during the past year to 0.42% versus 0.49% for the same period last year.

In the Ontario system, the excess of loan growth over deposit growth was funded primarily by increased borrowings. Overall liquidity within the system, including that held by Central, was 12.2% of deposit and debt liabilities as of June 30 2012, compared to 14.7% a year ago. Holdings of liquid assets decreased 0.9% year-over-year while borrowings from Central and other lenders increased by 117.7%.

Figure 1 - Selected Financial Information

	For the Three Months Ended		
	June 30 2012	June 30 2011	Difference
Earnings			
Net financial income *($ millions)*	$ 5.4	$ 17.1	$ (11.7)
Net financial and other income *($ millions)*	32.2	42.0	(9.8)
Profit for the period *($ millions)*	4.0	9.7	(5.7)
Weighted average shares outstanding *($ millions)*	278.3	168.1	110.2
Earnings per Share *(cents)*			
Basic	1.4	5.8	(4.3)
Fully diluted	1.4	5.8	(4.3)
Return on			
Average assets	0.1%	0.3%	(0.2%)
Average equity	2.1%	6.3%	(4.2%)
Balance Sheet Data *($ billions)*			
Total assets	$ 14.6	$ 15.0	$ (0.4)
Average assets	14.5	14.5	-
Long term financial liabilities	4.9	6.4	(1.5)
Regulatory Capital Ratios			
Tier 1 capital ratio	27.1%	22.0%	5.1%
Total capital ratio	35.4%	32.7%	2.7%
Borrowing multiple (times)	14.7	17.3	(2.6)
Share Information			
Outstanding $1 par value Shares *($ thousands)*			
Class A - credit unions	280,176	169,605	110,571
Class B - cooperatives	5	5	-
Class C - other	8	7	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", "B" and "C"	0.5	0.5	-
Class "E"	50.0	50.0	-

Total Revenues

Net Financial Income

Central recorded Net financial income of $5.4 million for the quarter, compared with Net financial income of $17.1 million for the same period last year.

Interest margin decreased from $14.6 million in the second quarter of last year to $10.1 million this year as average assets remained flat at $14.5 billion. As a percentage of average assets, Interest margin decreased from 40.3 basis points in the second quarter of 2011 to 28.1 basis points in the second quarter of 2012.

Over the past year, yields on both Central's investment portfolio and its deposits have decreased reflecting the prevailing low interest rate environment. During that period yields on securities have decreased more sharply than deposits. The decrease in investment yields reflects both the low level of interest rates as well as a shift in Central's investment strategy to reduce Central's risk exposures which began in the second half of 2011. Starting in the fourth quarter of 2011 and continuing into 2012, proceeds from maturing securities, or from the disposal of securities, have been reinvested in shorter-term, lower yielding investments.

During the quarter, Central recorded net unrealized losses of $27.1 million compared to a loss of $9.9 million during the same period last year. However, realized gains on the sale of financial instruments increased during the period from $12.5 million in 2011 to $22.3 million for the quarter ended June 30, 2012. Taken together, Central recorded an overall loss of $4.8 million on its financial instruments compared to a gain of $2.6 million in the second quarter of 2011.

Canadian government bond yields fell across the curve as investors shifted out of risky assets into government bonds, while provincial and bank credit spreads as well as interest rate swap spreads widened. The fall in interest rates led to mark-to-market gains on Central's securities portfolio during the quarter, although the gains were reduced by the negative impact of widening credit spreads.

The decrease in interest rates also led to mark to market losses on the derivatives portfolio which was partially mitigated by the widening of interest rate swap spreads.

Other Income

As indicated in Note 20 in Central's interim consolidated financial statements, Other income of $27.4 million for the quarter was higher than the $25.3 million earned in the second quarter of 2011.

Treasury services revenue was $1.4 million during the second quarter of 2012, up from $0.5 million during the same period last year. Over the past year Central has increased its foreign exchange product offerings to its members including providing members with access to additional foreign currencies.

Non-financial income for the second quarter of 2012 was aided by a one-time gain of $0.4 million on the disposal of non-core assets. Also during the second quarter, Central received dividends of $0.7 million on shares held in organizations affiliated with the credit union system, which is up from $0.4 million a year ago.

Offsetting these positive variances was a decline in insurance premium and assessment income which decreased from $2.6 million during the second quarter of 2012 to $1.7 million this year. The decrease reflects cost reductions associated with obtaining insurance coverage which have been passed on to Central's members. The decrease also reflects a reduction in the membership base of Stabilization Fund Corporation over the past year.

Operating Expenses

Operating expenses for the quarter decreased to $27.6 million from $30.7 million last year. Salary costs for the second quarter of 2012 increased by $0.3 million compared to the same period in 2011 primarily due to an increase in benefit costs.

Other administrative expenses declined from $12.8 million during the second quarter of 2011 to $9.4 million in 2012. In 2011, Central undertook an initiative to improve its payment processing infrastructure which became operational early in the second quarter of 2012. Payment processing costs during the second quarter of 2012 were about $0.5 million lower than the same period in 2011, primarily reflecting savings realized as a result of the completion of this project.

During the second quarter, direct expenses related to Insurance programs offered by Central's subsidiaries declined about $1.0 million compared to 2011. These costs include both claims incurred and expenses incurred to obtain third party coverage as required. In 2011, Central undertook a review of risk management practices amongst members of Stabilization Fund Corporation which has led to lower insurance premiums. However, the decrease in insurance related expenses also reflects a reduction in the membership base of Stabilization Fund Corporation.

Income Taxes

Central's combined federal and provincial statutory rate is 13.5%. Central's effective tax rate for the quarter was 14.6%, up from 13.9% in the second quarter of 2011. Additional information is provided in Note 21 of Central's interim consolidated financial statements.

Statement of Financial Position

Cash and Securities

Cash and securities were $11.0 billion at period end. Of this amount, $2.3 billion represents reinvestment assets which are designated to offset obligations under the Canada Mortgage Bond (CMB) program. The remaining balance of $8.7 billion comprises the statutory and excess liquidity pools and represents 70.7% of Central's total assets excluding reinvestment assets, compared to $9.5 billion and 72.5% a year ago.

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

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

	30-Jun-12		30-Jun-11		Dec 2011	
Cash & Liquid Securities						
Government & Guarantees	$ 3,610.1		$ 4,002.4		$ 3,404.8	
Cash	75.8		549.6		100.8	
	3,685.9	42.1%	4,552.0	48.2%	3,505.6	43.8%
Corporate & Financial Institutions AA or Greater *	4,836.2	55.3%	4,682.9	49.6%	4,365.6	54.6%
Other	225.4	2.6%	209.6	2.2%	127.4	1.5%
Total	$ 8,747.5	100.0%	$ 9,444.5	100.0%	$ 7,998.6	100.0%

* The credit ratings represent investment grade ratings provided by DBRS

Loans

Total loan balances increased to $1.9 billion from $1.7 billion at the same time last year.

Figure 3 - Loans ($ millions)

	30-Jun-12	30-Jun-11	December 2011
Loans to Credit Unions	$ 1,632	$ 1,140	$ 2,174
Loans to Commercial and Others	219	186	208
Securities acquired under reverse repo agreements	29	421	105
	$ 1,880	$ 1,747	$ 2,488

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

Loans to member credit unions increased to $1.6 billion from $1.1 billion at the same time last year. The amounts advanced under Central's non-credit union loan facilities as at June 30, 2012 was $248.0 million, down from $607.0 million in 2011, of which, commercial lending amounted to $219.0 million as at June 30, 2012, compared to $186.0 million a year ago. These loans represented 11.6% of Central's total loan portfolio at quarter-end, up from 10.6% a year ago. Meanwhile, Securities acquired under reverse repo agreements saw a decrease from $421 million to $29 million as at June 30, 2012.

Borrowings

Figure 4 below summarizes Central's total Borrowings as at June 30, 2012 together with comparative numbers for the end of the second quarter in 2011.

Total Debt securities issued as at June 30, 2012 were $713.0 million compared to $596.0 million a year ago. Of the total amount outstanding as at June 30, 2012, $314.0 million was borrowed under Central's Mid Term Note facility and the remainder was borrowed through Central's Commercial Paper facility.

Deposits from Central's member credit unions were $8.3 billion as at June 30, 2012 compared to $9.3 billion a year ago. Credit union statutory deposits grew by $0.3 billion over the year, to reach $5.4 billion at June 30, 2012, 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 $1.3 billion over the past year.

Figure 4 - Borrowings ($ millions)

Debt securities issued at amortized cost ($ millions)	**30-Jun-12**	**30-Jun-11**	**December 2011**
Commercial Paper issued	$ 399	$ 370	$ 150
Medium term notes issued	314	226	226
	713	596	376
Deposits and Trading Liabilities by type ($ millions)			
Statutory Liquidity	5,362	5,086	5,340
Excess Liquidity	2,883	4,206	3,368
Deposits from member credit unions	8,245	9,292	8,708
Others	589	665	481
	8,834	9,957	9,189
Securities under repurchase agreements	127	115	57
Total Borrowings	$ 9,674	$ 10,668	$ 9,622

Securitization Activities

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

Member credit unions have securitized these loans either indirectly through Central via asset-backed commercial paper conduits (ABCP Conduits) sponsored by major Canadian bank-owned dealers or directly through Central by creating Government of Canada National Housing Authority (NHA) Mortgage Backed Securities (MBS).

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

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

Equity

The Statement of Changes in Equity summarizes the changes in Equity for the period ending June 30, 2012. Central's equity increased by $39.7 million during the period to $764.4 million, primarily due to an increase in Profit. This is compared to an increase in equity of $35.4 million during the same period last year.

Summary of Quarterly Results

Central's financial results for each of the last eight most recently completed quarters are summarized in the accompanying table (Figure 5). In general, Central's Net interest income has no discernible seasonal trend, and reflects the condition of prevailing financial markets. Non-interest income and non-interest expenses are generally consistent from quarter to quarter, although revenue from the technology and payments areas has a slight seasonal pattern, with fourth quarter revenue being approximately 5% to 10% higher than that of the first quarter. Gains and losses on disposal of financial instruments and changes in fair value of financial instruments may also have a significant impact on quarterly Profit, but their timing and magnitude are not predictable.

Second Quarter 2012 Compared to First Quarter 2012

The Profit for the second quarter of 2012 was $4.0 million, down from a Profit of $31.0 million in the first quarter of 2012. Interest margin decreased to $10.1 million in the second quarter compared to $11.1 million in the first quarter of 2012 reflecting lower yields while average assets remained flat. Interest margin as a percentage of average assets decreased from 31.0 basis points to 28.1 basis points.

Gains on disposal of financial instruments were $22.3 million while changes in fair value of financial instruments resulted in a loss of $27.1 million, giving a net overall loss of

$4.8 million, compared to an overall gain of $29.0 million in the first quarter of 2012 as market conditions deteriorated in the second quarter of 2012.

Other income was $27.4 million for the quarter, up from $25.0 million during the first quarter of 2012. Technology and payment services revenue increased by $1.2 million from $14.3 million in the first quarter of 2012 to $15.5 million in the second quarter of 2012. Meanwhile, revenues associated with Trade Services activities including member dues and assessments increased from $4.4 million in the first quarter of 2012 to $5.9 million in the second quarter.

Operating expenses during the second quarter of 2012 were $27.6 million, down from $29.4 million in the first quarter of 2012. Salary and benefit expenses declined from $16.5 million to $15.7 million during the second quarter of 2012, reflecting non-recurring termination costs incurred in the first quarter of the year.

Other administrative expenses were $9.4 million during the second quarter of 2012, down from $10.6 million during the first quarter. This reduction in expenses includes a reduction in payment processing expenses of $0.8 million, reflecting investments in Central's payment processing infrastructure.

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

	2012/2011 Period Ended				2011/2010 Period Ended			
	30-Sep-11	31-Dec-11	31-Mar-12	30-Jun-12	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11
Total interest income	$ 85,414	$ 83,030	$ 79,212	$ 77,146	$ 78,826	$ 79,993	$ 82,570	$ 85,814
Total interest expense	71,319	70,138	68,082	67,014	65,732	67,620	69,764	71,235
Interest margin	14,095	12,892	11,130	10,132	13,094	12,373	12,806	14,579
Gain on disposal of financial instruments	30,306	43,502	30,972	22,329	17,522	14,163	12,125	12,476
Changes in fair value of financial instruments	(73,432)	(28,629)	(1,986)	(27,108)	(16,800)	5,523	2,256	(9,939)
Recovery (provision) of credit losses	(3,794)	(1,084)	111	(553)	(310)	(4,203)	12	(442)
Other income	27,554	25,229	25,007	27,421	24,188	26,855	23,871	25,278
Operating expenses	(25,797)	(33,844)	(29,403)	(27,551)	(29,886)	(33,423)	(29,922)	(30,720)
Income taxes	4,359	(2,647)	(4,803)	(682)	(638)	(3,007)	(2,833)	(1,557)
Profit (loss) for the period	$ (26,709)	$ 15,419	$ 31,028	$ 3,988	$ 7,170	$ 18,281	$ 18,315	$ 9,675
Weighted average shares outstanding (millions)	170.5	239.5	274.2	278.3	162.6	163.4	166.6	168.1
Earnings per share								
Basic *(cents)*	(15.7)	6.4	11.3	1.4	4.4	11.2	11.0	5.8
Diluted *(cents)*	(15.7)	6.4	11.3	1.4	4.4	11.2	11.0	5.8

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

Six Months Ended June 30, 2012 Compared to Previous Year

Profit for the first half of 2012 was $35.0 million, up from a Profit of $28.0 million in the first half of 2011. Interest margin decreased to $21.3 million in the first six months of the year quarter compared to $27.4 million in the same period last year reflecting lower yields while average assets showed a slight increase. Interest margin as a percentage of average assets decreased from 38.7 basis points to 29.5 basis points.

Gains on disposal of financial instruments were $53.3 million while changes in fair value of financial instruments resulted in a loss of $29.1 million, giving a net overall gain of $24.2 million, compared to an overall gain of $16.9 million in the first half of 2011.

Other income of $52.4 million for the first six months of the year was higher than $49.1 million earned in the comparable period in 2011, while Operating expenses were $57.0 million compared to $60.6 million incurred last year.

Central's Technology and Payment Services recorded revenues of $29.8 million during the first half of 2012, up from $29.4 million a year ago. Treasury Services revenues increased about $1.4 million over 2011 reflecting an increase in foreign exchange transaction activity during the period. Also included in Other income is Central's equity interest in affiliates which increased from $0.4 million in 2011 to $1.4 million in 2012.

Operating expenses during the first six months of 2012 were $3.6 million lower than 2011 even though salary expenses increased by $1.4 million during that period. Salary expenses in the first six months of 2012 include termination expenses which were incurred in the first quarter of the year.

During the first six months of 2012, Other administration expenses decreased from $25.0 million to $20.0 million. Payment processing costs were $0.7 million lower than the first six months of 2011, due principally to improvements in payments processing infrastructure. Other administrative expenses, including professional fees, were about $1.7 million lower in the first half of 2012 compared to a year ago. About half of this decrease relates to costs associated with the review of risk management procedures amongst members of Stabilization Fund Corporation which was undertaken in 2011.

Capital Resources

Central's regulatory capital for both federal and provincial purposes were well within both federal and provincial requirements.

Figure 6a - Capital Targets	**June 2012**	**June 2011**	**Dec 2011**	**Target**	**Regulatory Requirement**
Total Capital as % of Risk-Weighted Assets (Prov)	35.4%	32.7%	34.8%	> 15%	> 10%
Borrowing Multiple	14.7:1	17.3:1	15.3:1	15.0:1-17.0:1	less than 20.0:1

During the second quarter, Central's Board of Directors adjusted the target range for Central's borrowing multiple to 15:1 to 17:1 (previously 15:1 to 18:1) and the Total Capital as a percentage of Risk Weighted Assets target to a minimum of 15%. Central 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, and market volatility.

Central’s borrowing multiple for federal capital adequacy purposes was 14.7:1, down from 15.3:1 at December 2011 while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes increased from 34.8% to 35.4% during the same period. The decrease in the borrowing multiple is primarily driven by the increase in retained earnings.

Figure 6b - Capital Position ($ thousands)	**June 2012**	**June 2011**	**Dec 2011**
Share Capital	$ 280,222	$ 169,649	$ 272,062
Contributed Surplus	87,901	87,901	87,901
Retained Earnings	334,380	323,350	304,744
Less: Adjustments	(4,735)	(4,977)	(4,700)
Tier 1 Capital	697,768	575,923	660,007
Subordinated Debt	168,000	200,000	168,000
Add: Adjustments	4,735	4,977	4,700
Tier 2 Capital	172,735	204,977	172,700
Total Capital	870,503	780,900	832,707
Statutory Capital Adjustments	(151,849)	(150,357)	(154,600)
Capital Base	$ 718,654	$ 630,543	$ 678,107

Central’s regulatory capital base for federal purposes is calculated in Figure 6b above. As at June 30, 2012, Central’s federal Tier 1 Capital was $697.8 million and Total Capital before deductions was $870.5 million, compared to $575.9 million and $780.9 million, respectively, a year earlier. The increase in the Total Capital before deductions over the past year primarily reflects the growth in Share Capital. The calculation of Central’s capital base for provincial purposes is similar to the federal calculation.

During the third quarter of 2011, while Central's capital position was well within regulatory limits, the board of directors determined that it was appropriate to increase Central's capital as a prudent measure to accommodate future system growth in a period of financial market volatility.

Accordingly, Central’s Board authorized a capital call to increase the required holdings of Class “A” members in Class “A” shares and, on October 31, 2011 Central’s Class “A” members subscribed for a further $100 million in Class “A” shares, bringing total Class “A” shares outstanding to 38 basis points of the previous year’s audited consolidated assets of Class A members.

Risk management

This portion of the Report to Members should be read in conjunction with the Risk Management section of Central's 2011 MD&A.

Credit Risk

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

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

Liquidity Risk

Liquidity risk is the risk of being unable to obtain funds at a reasonable price or within a reasonable time period to meet obligations as they come due. As manager of its own liquidity and that of its member credit unions, Central is responsible for ensuring that managed assets are available to meet its own needs, together with those of the system. Central'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 as well as the risk of credit migration and default. The level of market risk to which Central is exposed varies depending on market conditions, future price and market movements and the composition of Central's investment, lending and derivative portfolios.

Central's interest rate risk policy defines standards and sets acceptable risk limits on Central's interest margin and the fair value of Central's net assets over a 12-month horizon. Those limits are based on an immediate and sustained +/- 200 basis point shift in the yield curve. The limit for fluctuations in interest income from the base forecast is 25.0% and the limit for changes in fair value of net assets from the base forecast is 20.0%.

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	(5,678)	(16.6)	(33,171)	(5.6)
200 bps decrease in rates	1,028	3.0	54,899	9.2

Central manages its exposure to credit spreads, credit migration and the risk of default through a range of governance and management processes. These include oversight by the Investment and Loan Committee, a committee of the Board of Directors, a comprehensive set of policies and corporate standards, independent measurement of market risk, and adherence to a set of limits with appropriate monitoring, reporting and escalation of limit breaches.

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

Insurance Risk

Central 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 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 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'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's Accounting Policies and Estimates

Central’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.

Critical Accounting Estimates

The critical accounting estimates remain unchanged from those disclosed in Central’s consolidated financial statements for the year ended December 31, 2011.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this Management's Discussion and Analysis, management evaluated Central's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Central's interim filings, as such term is defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

Central evaluated the design of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the quarter ended June 30, 2012.

There has been no change in Central's design of internal controls and procedures over financial reporting that has materially affected Central's internal control over financial reporting during the period covered by this Management's Discussion and Analysis. However, during the quarter the Payments department implemented a substantial operational and procedural change. Existing detective controls operated effectively and identified some operational errors arising from this change. Remediation was initiated, as were procedural changes aimed at resolving the root cause of these errors. These procedural changes and remediation efforts were continuing at quarter end.

Consequently, management has concluded that certain controls may need to be re-engineered; any changes to controls that are implemented will be reassessed after quarter end.

Central 1 Credit Union
Interim Consolidated Statement of Financial Position
Unaudited

	Notes	June 30 2012	June 30 2011	December 31 2011
		(Thousands of dollars)		
Assets				
Cash and cash equivalents		$ 75,830	$ 549,565	$ 100,795
Deposits with regulated financial institutions	5	156,197	10,632	5,357
Pledged trading assets	6	86,390	64,536	51,652
Reinvestment assets under the CMB and IMPP Programs	10	2,253,613	1,919,157	2,205,742
Non-pledged trading assets	6	3,215,274	5,223,866	3,996,526
Derivative assets	7	42,130	95,341	41,347
Loans	8	1,872,236	1,741,291	2,482,412
Investment securities	9	5,411,429	3,648,804	3,891,039
Secured loans to members	10	836,746	1,566,579	1,167,423
Current tax assets		1,794	99	-
Property and equipment		18,494	17,167	16,803
Intangible assets		3,767	2,973	2,568
Deferred tax assets		7,708	6,160	8,197
Investment in affiliates		113,357	129,550	112,601
Other	11	488,511	71,360	506,487
		$ 14,583,476	$ 15,047,080	$ 14,588,949
Liabilities				
Deposits designated as trading	12	$ 2,116,816	$ 1,977,832	$ 2,034,219
Derivative liabilities	7	222,595	87,850	211,967
Debt securities issued	13	713,519	596,212	375,516
Deposits	14	6,717,404	7,978,768	7,154,651
Obligations under the CMB and IMPP Programs	10	3,063,643	3,270,962	3,246,227
Subordinated liabilities	15	168,694	200,574	168,567
Provisions		5,397	6,484	5,798
Securities under repurchase agreements		126,850	114,721	57,020
Current tax liabilities		-	-	4,281
Deferred tax liabilities		2,860	3,106	3,094
Other	16	681,334	182,035	602,924
		13,819,112	14,418,544	13,864,264
Equity				
Share capital	17	280,221	169,649	272,062
Contributed surplus		87,901	87,901	87,901
Retained earnings		334,380	323,351	304,744
Accumulated other comprehensive income		46,715	33,351	45,612
Reserves		5,575	5,934	5,281
Total equity attributable to members of Central 1		754,792	620,186	715,600
Non-controlling interest		9,572	8,350	9,085
		764,364	628,536	724,685
		$ 14,583,476	$ 15,047,080	$ 14,588,949

Approved by the Directors:

"Terry Enns"
Terry Enns, Chairperson

"Daniel A. Burns"
Daniel A. Burns, Chairperson - Audit Committee

See accompanying notes to the interim consolidated financial statements

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

	Notes	(Thousands of dollars) For the three months ended June 30 2012	June 30 2011	(Thousands of dollars) For the six months ended June 30 2012	June 30 2011
Interest income					
Securities		$ 38,475	$ 47,249	$ 77,387	$ 94,762
Deposits with regulated financial institutions		51	337	129	672
Loans		10,208	9,094	21,406	15,249
Secured loans and reinvestment assets		28,412	29,134	57,436	57,701
		77,146	85,814	156,358	168,384
Interest expense					
Debt securities issued		4,137	3,528	7,583	7,636
Deposits		32,310	36,311	65,865	70,690
Obligations under the CMB and IMPP programs		28,950	29,330	58,386	58,542
Subordinated liabilities		1,617	2,066	3,262	4,131
		67,014	71,235	135,096	140,999
Interest margin		10,132	14,579	21,262	27,385
Gain on disposal of financial instruments	18	22,329	12,476	53,301	24,601
Changes in fair value of financial instruments	19	(27,108)	(9,939)	(29,094)	(7,683)
Net financial income		5,353	17,116	45,469	44,303
Provision of credit losses	8	553	442	442	430
		4,800	16,674	45,027	43,873
Other income	20	27,421	25,278	52,428	49,149
Net financial and other income		32,221	41,952	97,455	93,022
Operating expenses					
Salaries and employee benefits		15,748	15,419	32,236	30,788
Premises and equipment		2,369	2,496	4,703	4,824
Other administrative expenses		9,434	12,805	20,015	25,030
		27,551	30,720	56,954	60,642
Profit before income taxes		4,670	11,232	40,501	32,380
Income taxes	21	682	1,557	5,485	4,390
Profit for the period		$ 3,988	$ 9,675	$ 35,016	$ 27,990

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 June 30 2012	(Thousands of dollars) For the three months ended June 30 2011	(Thousands of dollars) For the six months ended June 30 2012	(Thousands of dollars) For the six months ended June 30 2011
Profit for the period	$ 3,988	$ 9,675	$ 35,016	$ 27,990
Other comprehensive income, net of tax				
Fair value reserve (available-for-sale financial assets)				
Net change in fair value[1]	6,004	21,679	4,477	13,602
Reclassification of gains on available-for-sale assets to profit or loss[2]	(1,994)	(3,673)	(3,374)	(6,441)
Other comprehensive income, net of tax	4,010	18,006	1,103	7,161
Comprehensive income, net of tax	$ 7,998	$ 27,681	$ 36,119	$ 35,151
Income tax (recoveries) deducted from the above items				
1 Net change in fair value of available-for-sale assets	$ 901	$ 3,482	$ 757	$ 2,209
2 Reclassification of gains on available-for-sale assets to profit or loss	$ (309)	$ (600)	$ (495)	$ (1,053)

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	Fair Value Reserve	Other Reserves	Retained Earnings	Equity Attributable to Members	Non-Controlling Interest	Total Equity
	Attributible to Equity holders							
Balance at January 1, 2012	$ 272,062	$ 87,901	$ 45,612	$ 5,281	$ 304,744	$ 715,600	$ 9,085	$ 724,685
Total Comprehensive income for the period								
Profit for the period					35,016	35,016		35,016
Other comprehensive income, net of tax								
Fair value reserve (available for sale financial assets, net of tax)			1,103			1,103		1,103
Total comprehensive income	-	-	1,103	-	35,016	36,119	-	36,119
Transactions with owners, recorded directly in equity								
Dividends to members					(5,889)	(5,889)		(5,889)
Related tax savings					823	823		823
Class "E" shares redemption, net of tax					(20)	(20)		(20)
Net Classes "A", "B" and "C" shares issued	8,159					8,159		8,159
Preferred shares issued by subsidiary							487	487
Transfer to (from) reserves				294	(294)	-		-
Total contributions and distributions to owners	8,159	-	-	294	(5,380)	3,073	487	3,560
Balance at June 30, 2012	$ 280,221	$ 87,901	$ 46,715	$ 5,575	$ 334,380	$ 754,792	$ 9,572	$ 764,364

Profit attributable to:

	2012	2011
Members of Central 1	$ 35,016	$ 28,012
Non-controlling interest	-	(22)
	$ 35,016	$ 27,990

Total Comprensive income attributable to:

Members of Central 1	$ 36,119	$ 35,173
Non-controlling interest	-	(22)
	$ 36,119	$ 35,151

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

(Thousands of dollars)	Attributible to Equity holders							
	Share Capital	Contributed Surplus	Fair Value Reserve	Other Reserves	Retained Earnings	Equity Attributable to Members	Non-Controlling Interest	Total Equity
Balance at January 1, 2011	$ 164,983	$ 87,901	$ 26,190	$ 5,594	$ 300,126	$ 584,794	$ 8,372	$ 593,166
Total Comprehensive income for the period								
Profit for the period					28,012	28,012	(22)	27,990
Other comprehensive income, net of tax								
Fair value reserve (available for sale financial assets, net of tax)			7,161			7,161		7,161
Total comprehensive income	-	-	7,161	-	28,012	35,173	(22)	35,151
Transactions with owners, recorded directly in equity								
Dividends to members					(4,795)	(4,795)		(4,795)
Related tax savings					674	674		674
Class "E" shares redemption, net of tax					(326)	(326)		(326)
Net Classes "A", "B" and "C" shares issued	4,666					4,666		4,666
Transfer to (from) reserves				340	(340)	-		-
Total contributions and distributions to owners	4,666	-	-	340	(4,787)	219	-	219
Balance at June 30, 2011	$ 169,649	$ 87,901	$ 33,351	$ 5,934	$ 323,351	$ 620,186	$ 8,350	$ 628,536

Central 1 Credit Union
Interim Consolidated Statements of Cash Flows
Unaudited

	(Thousands of dollars)		(Thousands of dollars)	
	For the three months ended		For the six months ended	
	June 30 2012	June 30 2011	June 30 2012	June 30 2011
Cash flows from operating activities				
Profit for the period	$ 3,988	$ 9,675	$ 35,016	$ 27,990
Adjustments for:				
Depreciation and amortization	734	1,370	1,646	2,836
Net interest income	(10,132)	(14,579)	(21,262)	(27,385)
Gain on disposal of financial instruments	(22,329)	(12,476)	(53,301)	(24,601)
Changes in fair value of financial instruments	27,108	9,939	29,094	7,683
Income tax expense	682	1,557	5,485	4,390
Provision for credit losses	553	442	442	430
Other items, net	(2,040)	(22,330)	747	(9,735)
	(1,436)	(26,402)	(2,133)	(18,392)
Change in trading assets	386,782	(516,590)	745,647	(818,700)
Settlements in transit	39,249	17,539	90,743	63,203
Change in loans	1,276	(366,413)	608,234	(630,508)
Change in trading liabilities	170,082	(252,393)	83,941	(104,153)
Change in deposits from members	(284,478)	1,152,261	(432,463)	1,437,980
	311,475	8,002	1,093,969	(70,570)
Interest received	89,891	25,774	160,954	166,788
Interest paid	(89,167)	(80,173)	(138,365)	(131,385)
Income tax paid	(2,979)	-	(10,927)	(300)
Net cash from operating activities	309,220	(46,397)	1,105,631	(35,467)
Cash flows from investing activities				
Change in amounts on deposit with regulated financial institutions	(150,143)	127,540	(150,894)	129,717
Change in reinvestment assets under the CMB and IMPP programs	48,743	(124,756)	(55,975)	(272,588)
Change in investment securities	(412,524)	298,229	(1,509,703)	324,619
Change in secured loans to members	185,946	184,337	323,470	355,931
Acquisition of property, plant and equipment	(704)	(699)	(2,645)	(1,273)
Acquisition of intangible assets	(940)	(130)	(1,706)	(309)
	(329,622)	484,521	(1,397,453)	536,097
Cash flows from financing activities				
Change in obligations under the CMB and IMPP Programs	(201,000)	-	(141,449)	-
Change in debt securities issued	87,859	(7,232)	337,989	(24,282)
Change in securities under repurchase agreements	(45,918)	(51,551)	69,856	(47,565)
Dividends paid	(2,934)	(2,760)	(8,185)	(5,178)
Proceeds from issue of shares	3,417	2,250	8,646	4,666
	(158,576)	(59,293)	266,857	(72,359)
Increase (decrease) in cash and cash equivalents	(178,978)	378,831	(24,965)	428,271
Cash and cash equivalents - beginning of period	254,808	170,734	100,795	121,294
Cash and cash equivalents - end of period	$ 75,830	$ 549,565	$ 75,830	$ 549,565

See accompanying notes to the interim consolidated financial statements

Table of Contents

1. Incorporation and governing legislation

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

The interim consolidated financial statements were authorized for issue by the Board of Directors on August 24, 2012.

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'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.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the interim consolidated financial statements are the same as described in Note 5 of Central's consolidated financial statements as at and for the year ended December 31, 2011.

3. Significant accounting policies

These consolidated financial interim financial statements have been prepared using the same accounting policies as set out in Central's consolidated financial statements as at and for the year ended December 31, 2011 except as described below:

Securitizations under the Canada Mortgage Bond (CMB) program and Insured Mortgage Purchase Program (IMPP)

Securitizations post 2009

Subsequent to 2009, Central securitization activity primarily involves the facilitation of transfers of NHA MBS by its member credit unions by acting as a swap counterparty with CHT and through the provision of administrative services. In such instances, Central records administration fees as other income when earned but Central does not acquire an interest in the underlying mortgages.

From time to time, Central may participate directly in securitization activities by acquiring an interest in third-party MBS and subsequently transferring those third-party MBS to CHT under the CMB program. The resulting obligation to CHT and the reinvestment assets are accounted for in the same manner as pre 2010 securitization transactions.

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

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

Financial instruments whose book values approximate fair value

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

Financial instruments for which fair value is determined using valuation techniques

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

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

Amounts on deposit with regulated financial institutions classified as loans and receivables are as follows:

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Amortized cost	**$ 6,189**	$ 10,632	$ 5,357
Fair value	**$ 6,291**	$ 10,718	$ 5,478

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

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Amortized cost	**$ 150,008**	$ -	$ -
Fair value	**$ 150,008**	$ -	$ -

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

(Thousands of dollars)		
June 30, 2012	June 30, 2011	December 31, 2011
$ 156,197	$ 10,632	$ 5,357

6. Trading assets

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Government & guarantees	**$ 1,851,226**	$ 3,294,035	$ 2,370,661
Corporate & financial institutions AA[1] or greater	**1,391,705**	1,920,402	1,653,779
Other	**58,733**	73,965	23,738
Fair value	**$ 3,301,664**	$ 5,288,402	$ 4,048,178

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Amortized cost	**$ 3,171,777**	$ 5,198,478	$ 3,868,510
Fair value	**$ 3,301,664**	$ 5,288,402	$ 4,048,178
Less pledged trading assets	**(86,390)**	(64,536)	(51,652)
	$ 3,215,274	$ 5,223,866	$ 3,996,526

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Trading assets	**$ 86,390**	$ 64,536	$ 51,652
Amounts included in investment securities	**46,696**	51,753	7,656
	$ 133,086	$ 116,289	$ 59,308

7. Derivative assets and liabilities

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

	(Thousands of dollars)					
	June 30, 2012		June 30, 2011		December 31, 2011	
	Asset	Liability	Asset	Liability	Asset	Liability
Interest rate contracts						
Futures contracts	**$ 160**	**$ 274**	$ 6	$ -	$ 136	$ 81
Swap contracts	**244,387**	**425,036**	192,060	185,902	294,422	464,729
Options purchased	**1,267**	**-**	132	-	21	-
Options written	**-**	**1,099**	-	132	-	21
	245,814	**426,409**	192,198	186,034	294,579	464,831
Foreign exchange contracts						
Foreign exchange forward contracts	**792**	**661**	2,734	1,407	592	960
Other derivative contracts						
Equities	**11,633**	**11,634**	27,152	27,152	16,122	16,122
Total fair value before adjustment	**258,239**	**438,704**	222,084	214,593	311,293	481,913
Adjustment for master netting agreements	**(216,109)**	**(216,109)**	(126,743)	(126,743)	(269,946)	(269,946)
	$ 42,130	**$ 222,595**	$ 95,341	$ 87,850	$ 41,347	$ 211,967

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

8. Loans

		(Thousands of dollars)		
		June 30, 2012	June 30, 2011	December 31, 2011
Due on demand	- Credit unions	**$ 44,498**	$ 13,915	$ 22,848
	- Commercial and others	**15,378**	9,686	8,866
		59,876	23,601	31,714
Term	- Credit unions	**1,587,824**	1,126,036	2,151,569
	- Commercial and others	**187,990**	160,527	183,293
	- Reverse repurchase agreements	**28,810**	420,772	105,285
	- Officers and employees	**15,140**	15,782	16,013
		1,819,764	1,723,117	2,456,160
		1,879,640	1,746,718	2,487,874
Accrued interest		**4,113**	3,866	7,064
		1,883,753	1,750,584	2,494,938
Allowance for credit losses		**(11,517)**	(9,293)	(12,526)
		$ 1,872,236	$ 1,741,291	$ 2,482,412

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 1.00% to 4.65%.

Impaired loans are as follows:

				(Thousands of dollars)		
				Net Impaired		
	Gross Impaired	Specific Allowance	Collective Allowance	**June 30, 2012**	June 30, 2011	December 31, 2011
Credit unions	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -
Commercial and others	**11,578**	**(10,926)**	**(591)**	**61**	2,232	1,171
Total	**$ 11,578**	**$ (10,926)**	**$ (591)**	**$ 61**	$ 2,232	$ 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	**Three months ended June 30, 2012**	**Six months ended June 30, 2012**	Three months ended June 30, 2011	Six months ended June 30, 2011	For the year ended December 31, 2011
Balance at beginning of period	**$ 10,824**	**$ 665**	**$ 11,489**	**$ 12,526**	$ 9,154	$ 9,498	$ 9,498
Net write-offs during the period	**(525)**	**-**	**(525)**	**(1,451)**	(303)	(635)	(2,280)
Provision (recovery) for credit losses	**627**	**(74)**	**553**	**442**	442	430	5,308
Balance at end of period	**$ 10,926**	**$ 591**	**$ 11,517**	**$ 11,517**	**$ 9,293**	$ 9,293	$ 12,526

9. Investment securities

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Amortized cost	**$ -**	$ 9,655	$ 10,186
Fair value	**$ -**	$ 9,650	$ 10,033

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Amortized cost	**$ 5,368,165**	$ 3,609,902	$ 3,839,629
Fair value	**$ 5,411,429**	$ 3,639,149	$ 3,880,853

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

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
	$ 5,411,429	$ 3,648,804	$ 3,891,039

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

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Government & guarantees	**$ 1,758,920**	$ 708,348	$ 1,034,145
Corporate & financial Institutions AA[1] or greater	**3,444,520**	2,762,457	2,711,818
Other	**207,989**	177,999	145,076
	$ 5,411,429	$ 3,648,804	$ 3,891,039

[1] The credit ratings represent investment grade ratings provided by DBRS.

The above table includes **$32.1** million (June 30, 2011 - $32.1 million; December 31, 2011 - $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 **$56.6** million of third-party MBS that were transferred to CHT under the CMB program as described in Note 3 for securitizations post 2009.

At the period-end, securities having a par value of **$884.0** million (June 30, 2011 - $819.3 million; December 31, 2011 - $ 878.0 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. Secured loans to members

Through its participation in the CMB and IMPP programs prior to 2010 as described in the significant accounting policies disclosed in Central's consolidated financial statements for the year end December 31, 2011, Central recognizes its interest in the underlying residential mortgages as secured loans from its member credit unions. The par amounts outstanding on these secured loans are as follows:

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Total amount of secured loans issued	**$ 4,240,559**	$ 4,240,559	$ 4,240,559
Aggregate principal payments received	**(3,413,386)**	(2,702,794)	(3,091,044)
Remaining par value of secured loans to members in the Statement of financial position	**$ 827,173**	$ 1,537,765	$ 1,149,515

The components of these balances are as follows:

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Remaining par value of secured loans under the CMB and IMPP programs	**$ 475,454**	$ 964,261	$ 698,405
Remaining par value of secured loans retained by Central	**351,719**	573,504	451,110
	$ 827,173	$ 1,537,765	$ 1,149,515

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

Amortized cost	**$ 830,949**	$ 1,546,033	$ 1,155,428
Fair value	**$ 836,746**	$ 1,566,579	$ 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. The following table summarizes the pre-tax impact of a sustained 200 basis points increase or decrease in interest rates used to determine the fair value of secured loans and equity.

(Thousands of dollars)

	As at June 30, 2012	As at June 30, 2011	As at December 31, 2011
Change in value of secured loans to members:	**Increase (Decrease)**	Increase (Decrease)	Increase (Decrease)
200 bps parallel increase in interest rates	**(2,286)**	(10,866)	(5,306)
200 bps parallel decrease in interest rates	**2,390**	11,356	5,525

A change in the mortgage prepayment rate changes the expected principal and interest cash flows of the secured loans. The pre-tax impact of a one percent increase or decrease in prepayment rate on the fair value of secured loans was less than one percent of equity as at each balance sheet date presented.

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Amount due within one year	**$ 1,681,146**	$ 223,577	$ 1,009,649
Amount due after one year, but within five years	**1,298,723**	2,919,918	2,110,936
	2,979,869	3,143,495	3,120,585
Accrued interest	**10,049**	12,093	11,377
Amortized cost	**$ 2,989,918**	$ 3,155,588	$ 3,131,962
Fair value	**$ 3,063,643**	$ 3,270,962	$ 3,246,227

As principal and interest payments on the underlying securitized assets are received, Central 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:

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Government & guarantees	**$ 2,248,268**	$ 1,803,217	$ 2,100,410
Assets acquired under reverse repurchase agreements	**5,345**	48,061	55,546
Other	**-**	67,879	49,786
Fair value	**$ 2,253,613**	$ 1,919,157	$ 2,205,742
Amortized cost	**$ 2,244,117**	$ 1,907,157	$ 2,188,579

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

11. Other assets

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Settlements in-transit	**$ 425,561**	$ -	$ 436,563
Assets available for sale designated as trading	**23,839**	3,101	2,182
Assets available for sale at amortized cost	**24,041**	24,673	56,597
Investment property	**6,197**	6,567	6,381
Prepaid expenses	**4,744**	6,150	2,950
Post-employment benefits	**217**	1,107	196
Accounts receivable and other	**3,912**	29,762	1,618
	$ 488,511	$ 71,360	$ 506,487

At period-end, the amortized cost of the assets available for sale designated as trading was **$23.6** million (June 30, 2011 - $3.1 million; December 31, 2011 - $2.1 million).

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)

	June 30, 2012	June 30, 2011	December 31, 2011
Amortized cost	**$ 2,101,508**	$ 1,965,697	$ 2,013,781
Fair value	**$ 2,116,816**	$ 1,977,832	$ 2,034,219

The contractual maturity dates of these liabilities are as follows:

	June 30, 2012	June 30, 2011	December 31, 2011
Amount			
- due within three months	**$ 96,339**	$ 36,713	$ 89,286
- due after three months and within one year	**902,642**	803,227	622,843
- due after one year and less than five years	**1,082,992**	1,084,850	1,284,819
- due after five years	**-**	22,305	-
	2,081,973	1,947,095	1,996,948
Accrued interest	**19,535**	18,602	16,833
Amortized cost	**$ 2,101,508**	$ 1,965,697	$ 2,013,781

13. Debt securities issued

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Notes			
- due within three months	**$ 394,383**	$ 345,313	$ 149,354
- due after three months and within one year	**317,585**	24,895	-
- due after one year and less than five years	**-**	224,488	224,625
	711,968	594,696	373,979
Accrued interest	**1,551**	1,516	1,537
	$ 713,519	$ 596,212	$ 375,516

Central has established **$85.3** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At June 30, 2012, June 30, 2011 and December 31, 2011, no amounts were drawn against these facilities.

Central is authorized to issue up to $1.5 billion in short-term commercial paper and up to $1.5 billion in other borrowings which includes Central's medium-term note facility. At June 30, 2012, **$400.0** million was borrowed under the short-term commercial paper facility (June 30, 2011 - $370.7 million; December 31, 2011 - $149.5 million) and **$312.9** million was borrowed under the medium-term note facility (June 30, 2011 - $225.0 million; December 31, 2011 - $225.0 million).

14. Deposits

Deposits classified as other liabilities are as follows:

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Amount			
- Due on demand	**$ 1,077,289**	$ 1,251,795	$ 1,016,528
- Due within three months	**1,809,567**	2,753,786	2,231,578
- Due after three months and within one year	**1,444,045**	1,931,070	1,893,371
- Due after one year and less than five years	**2,347,746**	1,996,625	1,969,499
- Due after five years and less than six years	**250**	2,433	375
	6,678,897	7,935,709	7,111,351
Accrued interest	**38,507**	43,059	43,300
	$ 6,717,404	$ 7,978,768	$ 7,154,651

15. Subordinated liabilities

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Series 1	**$ -**	$ 50,000	$ -
Series 2	**150,000**	150,000	150,000
Series 3	**18,000**	-	18,000
Principal amount	**168,000**	200,000	168,000
Accrued interest	**694**	574	567
	$ 168,694	$ 200,574	$ 168,567

On December 21, 2006, Central issued $50 million principal amount of Series 1 notes due December 21, 2016. The notes bore interest at a fixed rate of 4.52% until December 21, 2011, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 1.00%. The notes were redeemed on December 21, 2011.

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

On July 6, 2011, Central 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 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)		
	June 30, 2012	June 30, 2011	December 31, 2011
Settlements in-transit	**$ 634,291**	$ 133,566	$ 554,478
Post-employment benefits	**21,397**	17,680	20,707
Short-term employee benefits	**4,456**	3,734	5,841
Dividends payable	**2,954**	2,414	5,251
Unearned insurance premiums	**3,066**	4,833	864
Finance leases	**1,178**	1,320	1,178
Trade amounts and other	**13,992**	18,488	14,605
	$ 681,334	$ 182,035	$ 602,924

17. Share Capital

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

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

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

The numbers of shares issued are as follows:

	(Thousands of shares)		
	For the six months ended June 30, 2012	For the six months ended June 30, 2011	For the year ended December 31, 2011
Class A – credit unions			
Balance at beginning of period	**272,018**	164,939	164,939
Issued for cash during the period	**8,181**	4,793	107,206
Redeemed during the period	**(23)**	(127)	(127)
Balance at end of period	**280,176**	169,605	272,018
Class B – co-operatives			
Balance at beginning and end of period	**5**	5	5
Class C – other			
Balance at beginning and end of period	**7**	7	7
Issued for cash during the period	**1**	-	-
Balance at end of period	**8**	7	7
Class E – credit unions			
Balance at beginning of period	**3,159**	3,163	3,163
Redeemed during the period	**-**	(4)	(4)
Balance at end of period	**3,159**	3,159	3,159

The amounts outstanding are as follows:

	(Thousands of dollars)		
	June 30, 2012	June 30, 2011	December 31, 2011
Outstanding $1 par value shares			
Class A – credit unions	**$ 280,176**	$ 169,605	$ 272,018
Class B - cooperatives	**5**	5	5
Class C - other	**8**	7	7
Outstanding $0.01 par value shares			
Class E – credit unions	**32**	32	32
	$ 280,221	$ 169,649	$ 272,062

18. Gain on disposal of financial instruments

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

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net gain on disposal of trading assets	**$ 20,063**	$ 9,387	**$ 54,002**	$ 19,452
Net gain on disposal of investment securities	**2,303**	4,274	**3,869**	7,545
Net gain (loss) on disposal of derivatives	**549**	(104)	**(3,486)**	(1,315)
Net loss on disposal of deposits	**(586)**	(1,081)	**(1,084)**	(1,081)
	$ 22,329	$ 12,476	**$ 53,301**	$ 24,601

19. Change in fair value of financial instruments

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Trading assets	**$ 55**	$ 73,401	**$ (49,781)**	$ 30,535
Activities under the CMB and IMPP programs				
Reinvestment assets	**(1,897)**	4,301	**(7,667)**	2,108
Derivative assets and liabilities	**(9,565)**	6,019	**(24,915)**	(3,779)
Secured loans to members	**(2,365)**	(1,127)	**(6,198)**	(5,952)
Obligations to CHT and CMHC	**13,962**	(10,098)	**40,540**	8,023
Derivative assets and liabilities	**(27,883)**	(75,594)	**13,797**	(34,242)
Trading deposits	**585**	(6,841)	**5,130**	(4,376)
	$ (27,108)	$ (9,939)	**$ (29,094)**	$ (7,683)

20. Other income

(Thousands of dollars)

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Membership dues	**$ 2,180**	$ 1,923	**$ 4,254**	$ 3,765
Provincial advertising assessment	**431**	222	**681**	640
Equity interest in affiliates	**605**	(27)	**1,430**	422
Insurance premiums and assessments	**1,720**	2,563	**3,471**	5,131
Technology and payment services				
- Processing	**10,580**	12,071	**20,226**	23,701
- Direct banking	**4,932**	3,654	**9,571**	5,705
Wholesale financial services				
- Treasury services	**1,405**	504	**2,766**	1,372
- Funding and commercial	**1,413**	1,094	**2,436**	2,133
- Employee benefits & retirement services	**304**	240	**568**	491
- Trust services	**517**	572	**1,044**	1,121
- Other	**117**	-	**655**	-
Trade and other services				
- Product compliance and design	**367**	391	**735**	735
- Property rents	**282**	250	**523**	470
- Risk management	**832**	725	**1,421**	1,484
- Marketing products & programs	**325**	367	**751**	706
- Research	**44**	39	**373**	354
- Other	**1,367**	690	**1,523**	919
	$ 27,421	$ 25,278	**$ 52,428**	$ 49,149

21. Provision for income taxes

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

	(Thousands of dollars) For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Provision for income taxes in Statements of Profit or Loss	**$ 682**	$ 1,557	**$ 5,485**	$ 4,390
Income tax benefit related to dividends accrued and share redemptions	**(416)**	(393)	**(826)**	(727)
Total	**$ 266**	$ 1,164	**$ 4,659**	$ 3,663

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

Current income taxes	**$ 1,060**	$ 2,801	**$ 5,210**	$ 3,874
Deferred income taxes	**(378)**	(1,244)	**275**	516
Total	**$ 682**	$ 1,557	**$ 5,485**	$ 4,390

Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of **30.5 %** (2011 – 30.5%) to income before taxes. The reasons for this are as follows:

	For the three months ended		For the six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
	%	%	**%**	%
Combined federal and provincial statutory income tax rates	**30.5**	30.5	**30.5**	30.5
Reduction available to credit unions	**(17.0)**	(17.0)	**(17.0)**	(17.0)
Other	**1.1**	0.4	**-**	0.1
Total	**14.6**	13.9	**13.5**	13.6

22. Guarantees, commitments and contingencies

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

Central is a Group Clearer under the rules of the Canadian Payment Association (CPA). In addition to Central, the other members of the group are the Prairie Centrals. Under the rules of the CPA, Central 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 with a guarantee for those payments.

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

(Thousands of dollars)

	June 30, 2012	June 30, 2011	December 31, 2011
Standby letters of credit	**$ 100,605**	$ 53,967	$ 66,876
Commitments to extend credit	**$ 3,557,582**	$ 3,185,683	$ 3,185,384

Central is involved in a legal action 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 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)**	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Assets						
Cash and cash equivalents	**$ 75.83**	$ 549.56	**$ 75.83**	$ 549.56	**$ -**	$ –
Deposits with regulated financial institutions	**156.20**	10.72	**156.20**	10.63	**-**	0.09
Investment securities	**8,713.09**	8,937.20	**8,713.09**	8,937.21	**-**	(0.01)
Reinvestment assets under the CMB and IMPP programs	**2,253.61**	1,919.16	**2,253.61**	1,919.16	**-**	-
Derivative assets	**42.13**	95.34	**42.13**	95.34	**-**	-
Loans	**1,872.76**	1,746.43	**1,872.23**	1,741.29	**0.53**	5.14
Secured loans to members	**836.75**	1,566.58	**836.75**	1,566.58	**-**	-
Other assets	**473.77**	28.02	**473.44**	27.78	**0.33**	0.24
Liabilities						
Deposits designated as trading	**2,116.82**	1,977.83	**2,116.82**	1,977.83	**-**	-
Derivative liabilities	**222.59**	87.85	**222.59**	87.85	**-**	-
Debt securities issued	**717.18**	601.74	**713.52**	596.21	**(3.66)**	(5.53)
Deposits from members	**6,762.12**	8,009.64	**6,717.40**	7,978.77	**(44.72)**	(30.87)
Obligations under the CMB and the IMPP programs	**3,063.64**	3,270.96	**3,063.64**	3,270.96	**-**	-
Subordinated liabilities	**172.67**	207.43	**168.69**	200.57	**(3.98)**	**(6.86)**
Securities under repurchase agreements	**126.85**	114.72	**126.85**	114.72	**-**	-
Other liabilities	**634.29**	133.57	**634.29**	133.57	**-**	-
Total					**$ (51.50)**	$ (37.80)

Central's net unrealized loss on its financial instruments at December 31, 2011 was $52.71 million.

24. Capital management

Central's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions and provincial regulations administered by the Financial Institutions Commission of British Columbia. Pursuant to federal regulations, Central is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less. Central 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, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings, which generally parallel the methodology used by OSFI to regulate Canadian chartered banks, require Central's risk-weighted capital, calculated by dividing capital by risk-weighted assets, to be no less than 8 percent. Furthermore, Central must maintain a risk-weighted capital ratio of at least 10 percent to enable member credit unions in British Columbia to risk-weight their deposits with Central at zero percent.

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

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

25. Related parties

Transactions with key management personnel

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

	(Thousands of dollars)	
	June 30, 2012	June 30, 2011
Mortgage loans outstanding at end of period	**$ 937**	$ 1,270
Maximum mortgage loans outstanding during the period	**$ 945**	$ 1,284

Mortgage loans to key management personnel bear interest at rates ranging from 2.5% to 3.8% 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 June 30, 2012	Period ended June 30, 2011
Salaries and short-term employee benefits	**$ 1,282**	$ 2,505
Post-employment benefits	**52**	143
	$ 1,334	$ 2,648

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

Board of directors

During the period, the members of Central's Board of directors received aggregate remuneration of **$174** thousand (period ended June 30, 2011 - $144 thousand)

Significant Subsidiaries

	(% ownership of common shares outstanding)		
	June 30, 2012	June 30, 2011	December 31, 2011
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, subject to the approval of its Board of Directors, may declare patronage dividends to distribute some, or all, of its excess or revenue over expenditures during the period. Central participates in this patronage dividend in proportion to its use of services provided by CUPP Services, with the remainder issued to holders of the Non-Controlling Interest of CUPP Services.

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

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

Investments in affiliates

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

	(% ownership of common shares outstanding)		
	June 30, 2012	June 30, 2011	December 31, 2011
Credential Financial Inc.	**40%**	40%	40%
Credit Union Central of Canada (CUCC)	**50%**	51%	50%
CUMIS Group Limited	**27%**	27%	27%