Second Quarter Report 2014

REPORT TO MEMBERS

CENTRAL 1 REPORTS RESULTS FOR SECOND QUARTER OF 2014

Second quarter highlights compared to the same period last year:

- Central 1's Profit for the period of $14.7 million, compared to a Profit of $19.1 million
- Central 1's Return on equity 6.6%, compared to 9.1%
- Central 1's Assets of $13.1 billion, essentially unchanged from $13.1 billion
- B.C. system(1) Net operating income(2) of $73.5 million, versus $82.6 million
- B.C. system Assets of $60.5 billion, up 4.0% from $58.2 billion
- Ontario system(3) Net operating income(2) of $41.0 million, versus $35.1 million
- Ontario system Assets of $34.5 billion, up 8.0% from $32.0 billion

Central 1 recorded Net financial income of $19.2 million and Profit of $14.7 million during the second quarter, compared to Net financial income of $25.7 million and Profit of $19.1 million respectively, during the same period last year. Central 1's Other income was $31.2 million, an increase of $2.6 million over the same period last year, while Operating expenses increased by $1.9 million to $33.6 million. Assets, which were $13.1 billion as at June 30, 2014 were unchanged from the prior year.

At quarter-end, Central 1's borrowing multiple for federal capital adequacy purposes was 10.5:1, while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes was at 57.2%.

Global economic performance in the first half of the year has been sluggish. In the United States, economic growth picked up in the second quarter of 2014 after a weak start to the year. Economic growth in Asia is accelerating, but the performance of the Eurozone economies has been mixed. Long term global economic growth is expected to remain modest and is threatened by increasing geopolitical risks in Europe and the Middle East.

Canada's economic growth is being dampened by a weak demand for exports. Canada's second quarter GDP growth is expected to exceed the 1.2% recorded in the first quarter when reported later this year. This increase reflects higher levels of employment and improvements in the housing sector in the second quarter. Longer term GDP growth in Canada will be linked to improvements in the US economy, but is expected to exceed 2.0% for the remainder of the year.

Yields on longer term Government of Canada debt instruments decreased during the second quarter, while yields on shorter term instruments were largely unchanged. Credit spreads on provincial bonds and high grade corporate bonds narrowed. Swap spreads widened in the second quarter as Canadian Banks issued debt in foreign markets.

Moderate economic growth appears to have continued in British Columbia in the second quarter. The average level of employment increased by 6,000 persons (0.3%), seasonally adjusted, while the unemployment rate averaged 6.0%, down from 6.2% in the first quarter. The re-sale housing market perked up in the second quarter, with seasonally adjusted unit sales up 10.9% from the first quarter while the average sale price declined 2.3%.

Economic growth in Ontario appears to have rebounded in the second quarter from a stall in the first quarter. The average level of employment increased by 27,000 persons (0.4%), seasonally adjusted, while the unemployment rate remained around 7.4%. The re-sale housing market rebounded in the second quarter, with seasonally adjusted unit sales up 13.0% from the first quarter and average sale price up 1.4%.

The B.C. system earned $73.5 million before taxes, dividends, patronage refunds, charitable donations, capital gains and other comprehensive income in the second quarter of 2014, down 11.0% from the $82.6 million earned during the same period in 2013. Combined assets of the B.C. system rose 4.0%, year-over-year, to reach $60.5 billion at quarter-end.

The Ontario system earned $41.0 million before taxes, dividends, patronage refunds and extraordinary items in the second quarter, up from the $35.1 million during the same period in 2013. Combined assets of the Ontario system increased 8.0% year-over-year to reach $34.5 billion at June 30, 2014.

(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 August 22, 2014 for the period ended June 30, 2014

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, 2013, and provides a discussion and analysis of Central 1's financial condition and results of operations for the three and six month periods ended June 30, 2014 compared to the corresponding periods in the preceding fiscal year. The financial information included in this MD&A should be read in conjunction with Central 1's interim financial statements for the three and six month periods ended June 30, 2014. 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 and six month periods ended June 30, 2014 which may be found on SEDAR at www.sedar.com.

During the first quarter of 2014, FICOM designated Central 1 as a domestic systemically important financial institution ("D-SIFI") within the Canadian credit union system. Upon designating Central 1 as D-SIFI, FICOM implemented new liquidity restrictions on Central 1's securities within the Mandatory Reserve Pool ("MRP") which are described under the Cash and Securities Section below. FICOM also implemented additional capital requirements for Central 1's MRP and Excess Liquidity Pool ("ELP") business lines which are described in the Capital Resources section of this MD&A.

Central 1 is considering to apply to the relevant Canadian securities regulators to cease to be a reporting issuer under Canadian securities legislation. As a result, Central 1 could cease to be a reporting issuer prior to the maturity of some of Central 1's publicly issued debt instruments in which case holders of the instruments may not have access to publicly filed continuous disclosure documents relating to Central 1 during the whole time period when the instruments are outstanding. However, Central 1 will continue to file its quarterly and audited annual statements on its website should it cease to become a reporting issuer.

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 law.

Additional information about these and other factors can be found in the Overview section of our 2013 Annual Report and in the Risk Management section of this MD&A.

Overall Performance and Interim Financial Condition

During the second quarter of 2014, Central 1 recorded Profit of $14.7 million or 4.7 cents per share, compared to Profit of $19.1 million or 6.5 cents per share last year.

Net financial income was $19.2 million, down from $25.7 million posted in the second quarter of 2013.

Financial markets ended the second quarter close to where they started, as volatility on bonds and equities declined in spite of mixed North American economic data and increasing geopolitical turmoil. Interest rates ended the quarter largely unchanged with both the Canadian and US yield curves flattening slightly. Credit spreads on provincial, Government of Canada's National Housing Authority (NHA) Mortgage Backed Securities (MBS), and high grade corporate bonds narrowed, while swap spreads widened considerably during the quarter.

These market developments had a net favorable impact on Central 1's Net financial income for the quarter. Central 1 had realized losses of $21.3 million and unrealized gains of $33.6 million resulting in a net gain of $12.3 million during the second quarter, compared to a net gain of $17.9 million the previous year. Further information is included in Notes 20 and 21 of the interim consolidated financial statements.

Interest margin for the quarter was $6.8 million, down from $7.8 million during the three months ended June 30, 2013. The overall liquidity of Central 1's investment holdings has improved over the past year as Central 1 transitions its investment holdings to meet OSFI's Liquidity Adequacy Requirements. This transition has resulted in Central 1 holding a larger proportion of government-issued securities than it held a year ago as identified in Figure 2 (*page 10*).

Despite reduced risk exposures in the MRP and ELP, both portfolios turned in strong performances over the second quarter of 2014. The portfolios benefitted from mark-to-market gains on the narrowing of credit spreads on Provincial, Canada Mortgage and high-grade corporate bonds. Central 1 unwound swapped asset positions in the MRP pool, which resulted in mark-to-market losses on derivatives transferring from unrealized to realized.

Other income of $31.2 million for the quarter was up from $28.6 million reported in the second quarter of 2013. Note 24 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 $33.6 million, up from $31.7 million in the same quarter in 2013. Salaries and employee benefits increased from $16.0 million in the second quarter of 2013 to $18.3 million in the current quarter, due primarily to an accrual of $1.8 million for amounts payable pursuant to a contractual agreement with one member of Central 1's executive team who left Central 1 during the second quarter.

Central 1's capital ratios remain well within statutory limits. Central 1's borrowing multiple decreased from 13.1:1 at December 31, 2013 to 10.5:1 at quarter-end. The decrease in the borrowing multiple reflects increased levels of regulatory capital, the impact of which on the borrowing multiple has been partially offset by a higher level of borrowings. At the quarter-end, Central 1's provincial risk-weighted capital ratio was 57.2% compared to 47.1% at December 31, 2013.

B.C. System

Net operating income for the second quarter was $73.5 million, compared to $82.6 million for the second quarter of 2013. Net interest income increased $2.5 million on higher interest income. Non-interest income decreased $1.9 million, led by subsidiaries and trading financial instruments. Non-interest expenses increased $6.0 million, led by premises, equipment, professional services, salaries and benefits.

Aggregate net loans increased by 4.2% year-over-year to reach $51.7 billion. Deposits increased 3.6 % to $53.5 billion. Asset growth was mainly in personal and commercial mortgages which grew by 2.7% and 5.9% respectively. Deposit growth was mainly in non-registered demand deposits which increased 6.5%.

The system's rate of loan delinquencies over 90 days was 0.40% of total loans at the end of June, down eight basis points year-over-year. Provision for credit losses as a percentage of loans was 0.32%, down from 0.37% a year ago. The system's loan loss expense ratio was 0.07% annualized in the second quarter, down from 0.08% in the second quarter last year.

The B.C. system's regulatory risk-weighted capital ratio was 15.0% at the end of June, up from 14.0% a year ago. Aggregate liquidity of B.C. credit unions, including that held by Central 1, was 13.5% of deposit and debt liabilities, consistent with the previous year.

Ontario System

The Ontario system's earnings before taxes, dividends and patronage refunds and extraordinary items was $41.0 million in the second quarter, up from $35.1 million in the second quarter of 2013. Net interest income increased $4.8 million as loan growth outweighed a narrower spread. Non-interest income increased $3.9 million while non-financial expenses increased $2.9 million.

Ontario system net loans increased 11.2% year-over-year to reach $29.8 billion. Deposits climbed 5.7% to $28.9 billion. Asset growth was mainly in residential mortgages, up by 12.7% from a year ago, and commercial mortgages and loans which increased 10.9%. Liability growth was mainly in deposits, up 5.7% and borrowings, up 42.6%.

The system’s rate of loan delinquencies over 90 days was 0.54% of total loans at the end of the second quarter, down 10 basis points year-over-year. Provision for credit losses as a percentage of loans was 0.35% as of June 30, down from 0.38% a year ago. The system’s loan loss expense ratio was 0.06% annualized in the second quarter, down from 0.10% basis points from the second quarter last year.

The Ontario system's regulatory risk-weighted capital ratio was 13.1% at the end of the second quarter, down 14 basis points from a year earlier (Class 2 credit unions only). The regulatory liquidity ratio for the Ontario system, including that held by Central 1 was 10.7% as of June 30, down from 12.8% a year earlier.

Figure 1 - Selected Financial Information	**For the Three Months Ended**		
	June 30 2014	**June 30 2013**	**Change**
Earnings *($ millions)*			
Net financial income	$ 19.2	$ 25.7	$ (6.5)
Net financial and other income	50.6	54.4	(3.8)
Profit for the period	14.7	19.1	(4.4)
Weighted average shares outstanding *($ millions)*	311.6	293.3	18.3
Earnings per Share *(cents)*			
Basic	4.7	6.5	(1.8)
Fully diluted	4.7	6.5	(1.8)
Return on			
Average assets	0.5%	0.6%	(0.1%)
Average equity	6.6%	9.1%	(2.5%)
Balance Sheet Data *($ billions)*			
Total assets	$ 13.1	$ 13.1	$ -
Average assets	12.9	13.7	(0.8)
Long term financial liabilities	4.7	5.1	(0.4)
Regulatory Capital Ratios			
Tier 1 capital ratio	36.8%	32.7%	4.1%
Total capital ratio	57.2%	41.7%	15.5%
Borrowing multiple (times)	10.5	13.2	(2.7)
Share Information			
Outstanding $1 par value Shares *($ thousands)*			
Class "A" - credit unions	315,907	293,428	22,479
Class "B" - cooperatives	5	5	-
Class "C" - other	7	7	-
Outstanding $0.01 par value Shares with redemption value of $100 *($ thousands)*			
Class "E" - credit unions	32	32	-
Number of shares outstanding *(thousands)*			
Class "A" - credit unions	315,907	293,428	22,479
Class "B" - cooperatives	5	5	-
Class "C" - other	7	7	-
Class "E" - credit unions	3,158	3,159	(1)
Dividends per share *(cents)*			
Class "A"	0.30	1.06	(0.76)
Class "B" & "C"	0.34	0.34	-
Class "E"	-	-	-

On an annual basis, Central 1 distributes the earnings from the MRP to its Class A member as dividends on their Class A shares. Amounts accrued during the second quarter of 2014 represent the earnings of the MRP during that period. As the separation of investments in the MRP from the rest of Central 1's investment portfolio occurred during 2013 the earnings for the MRP in 2013 were based on the estimated earnings of the securities allocated to the MRP during the year.

Total Revenues

Net Financial Income

Central 1 recorded Net financial income of $19.2 million for the quarter (*Figure 1, page 7*), compared with Net financial income of $25.7 million for the same period last year.

Interest margin decreased from $7.8 million in the second quarter of last year to $6.8 million this quarter as average assets decreased from $13.7 billion to $12.9 billion. As a percentage of average assets, Interest margin decreased from 22.8 basis points in the second quarter of 2013 to 21.3 basis points in the second quarter of 2014.

During the quarter, Central 1 had realized losses of $21.3 million and unrealized gains of $33.6 million resulting in a net gain of $12.3 million, compared to a net gain of $17.9 million in the second quarter of 2013. The narrowing of credit spreads combined with lower interest rates in intermediate maturities had a positive impact on the valuation of the securities portfolio. Central 1 realized net gains on the disposal of securities. On the derivatives portfolio, Central 1 realized losses in the quarter primarily from the restructuring of interest rate swaps, which resulted in the reversal of unrealized losses recorded in previous periods. Trading deposits were negatively impacted by the change in interest rates in the quarter.

Other Income

Other income of $31.2 million for the quarter was up from the $28.6 million reported during the second quarter of 2013.

Central 1's Technology and Payments Services revenues increased from $16.1 million during the second quarter in 2013 to $17.3 million in the second quarter of 2014. Processing fees in the second quarter of 2014 in the paper and electronic payments' areas increased $1.0 million over the second quarter of 2013. The increases reflect increased processing fees on paper transactions and higher volumes on electronic payments transactions.

Within Wholesale Financial Services, foreign exchange income improved from $1.2 million in the second quarter of 2013 to $1.9 million in the current quarter. Included in other income is Central 1's equity interest in affiliates which improved from $1.3 million in the second quarter of 2013 to $2.3 million during the second quarter of 2014.

In addition, income from insurance assessments increased $0.4 million primarily due to an increased assessment related to the Master Insurance Program ("MIP"). As of July 1 2014 the MIP administered by one of Central 1's subsidiaries on behalf of Ontario credit unions was to The CUMIS Group Limited (CUMIS). Transferring the MIP to CUMIS will result in lower revenues and expenses in Central 1's Trade Services business line in future periods.

Marketing products and programs included within Trade and Other Services declined by $0.5 million from the prior year quarter to $0.9 million in the current quarter. The lower revenue compared to the prior year quarter is tied to specific marketing programs which did not recur in 2014.

Operating Expenses

Operating expenses reported in the second quarter increased from $31.7 million in the prior year quarter to $33.6 million in the current quarter. Salaries and employee benefits expense increased, from $16.0 million to $18.3 million in the current quarter. Included in salaries and benefits in the current quarter is an accrual of $1.8 million for amounts payable pursuant to a contractual agreement with a member of Central 1's executive team who left Central 1 during the second quarter. Adjusting for the impact of this restructuring charge in the quarter, salary and employee benefits expenses were $16.5 million compared with $16.0 million in the second quarter of 2013.

Cost of sales and services decreased from $8.1 million in the second quarter of 2013 to $7.0 million in the second quarter of 2014. Costs associated with specific marketing programs completed in 2013 did not recur, reducing expenses by $0.4 million compared to the same period in 2013. Additionally, the costs of insurance services offered to credit union members by Central 1's subsidiaries decreased from $1.6 million in 2013 to $0.9 million in the current year, reflecting an actuarial assessment to lower the claims provision. Professional fees increased by $0.3 million in the second quarter of 2014 reflecting costs associated with the implementation of Central 1's treasury system and certain risk oversight functions. One time costs associated with the review of Central 1's governance of $0.6 million were also incurred during the second quarter of 2014.

Income Taxes

Central 1's combined federal and provincial statutory tax rate is 26.1%. Central 1's effective tax rate for the quarter was 13.7%, down from 15.7% in the second quarter of 2013.

The federal 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 is being phased out over a five year period which began in 2013. The impact of the phasing out of the deduction will be mitigated to a large extent by the availability of a general rate reduction which Central 1 can apply to its active business income not benefitting from the credit union deduction.

During the first quarter of 2014, the Government of British Columbia announced that it will phase out the preferential tax treatment for B.C. credit unions over five years beginning in 2016. The impact of this change in the B.C. provincial income tax rates is expected to result in an increase in Central 1's future effective tax rate in future fiscal periods. The impact of this change in tax rates will depend on the timing of the recognition of income and expense items for tax purposes.

Statement of Financial Position

Cash and Securities

Cash and securities were $11.1 billion at period end. Of this amount, $0.2 billion represents reinvestment assets which are designated to offset obligations under the Canada Mortgage Bond ("CMB") program. The remaining balance of $10.9 billion (*Figure 2, page 10*) comprises the MRP and ELP investment portfolios and represents 84.5% of Central 1's total assets, excluding reinvestment assets, compared to $9.8 billion and 80.3% a year ago.

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

Investments in the MRP comprised primarily of high quality liquid assets that can be easily converted into cash at little or no loss of value, to be maintained under normal and stressed market conditions. Central 1 is in the process of transitioning its holdings in the MRP to ensure they will meet the criteria outlined in OSFI's Liquidity Adequacy Requirements and as a result of meeting OSFI's requirements, will also meet the collateral requirements under Bank of Canada's Standing Liquidity Facility.

FICOM also requires that the weighted average duration of the securities in the MRP be no greater than 1.0 and the use of derivatives in the MRP is prohibited. As these requirements have recently come into effect, Central 1 has been granted a transition period which ends in June 2015 to bring the portfolio into compliance with these requirements.

Figure 2 - Mandatory and Excess Reserve Pools ($ millions - % total)

	30-Jun-14						30-Jun-13		31-Dec-13	
	MRP		ELP		TOTAL		TOTAL		TOTAL	
Government & Guarantees	$ 5,341.8		$ 1,776.9		$ 7,118.7		$ 4,665.6		$ 5,582.6	
Cash	-		118.5		118.5		62.7		74.2	
	5,341.8	79.9%	1,895.4	45.1%	7,237.2	66.5%	4,728.3	48.3%	5,656.8	56.8%
Corporate & Financial Institutions AA or Greater *	1,344.4	20.1%	2,081.0	49.5%	3,425.4	31.5%	4,824.6	49.3%	4,099.2	41.1%
Other	-	0.0%	224.7	5.3%	224.7	2.1%	238.0	2.4%	207.0	2.1%
Total	$ 6,686.2	100.0%	$ 4,201.1	100.0%	$10,887.3	100.0%	$ 9,790.9	100.0%	$ 9,963.0	100.0%

* The credit ratings represent investment grade ratings provided by DBRS

Loans

Total loan balances, including securities acquired under reverse repurchase agreements, decreased to $1.0 billion from $1.3 billion at the same time last year. Amounts lent under reverse repurchase agreements relate to activities performed by Central 1's Treasury services department within its Wholesale Financial Services area. Amounts advances under Central 1's credit union and commercial loan facilities are included in Figure 3.

Figure 3 - Loans ($ millions)

	30-Jun-14	30-Jun-13	31-Dec-13
Loans to credit unions	$ 597.0	$ 694.3	$ 879.8
Non credit union loan facilities			
Syndicated commercial loans	175.5	160.6	168.2
Non syndicated commercial loans	20.6	23.8	16.4
Other loans	22.2	13.2	12.2
Mortgage pools	12.4	14.5	13.6
	230.7	212.1	210.4
	$ 827.7	**$ 906.4**	**$ 1,090.2**

* Total loan balances are before the allowance for credit losses and exclude accrued interest.

Loans to member credit unions decreased to $0.6 billion from $0.7 billion at the same time last year. The amounts advanced under Central 1's non-credit union loan facilities as at June 30, 2014 was $230.7 million, up from $212.1 million in 2013, of which, commercial lending amounted to $196.1 million as at June 30, 2014, compared to $184.4 million a year ago. These loans represented 19.8% of Central 1's total loan portfolio at quarter-end, up from 13.8% a year ago. Meanwhile, securities acquired under reverse repurchase agreements saw a decrease from $433.9 million to $161.8 million as at June 30, 2014.

Borrowings

Figure 4 (*below*) summarizes Central 1's total Borrowings as at June 30, 2014.

Figure 4 - Borrowings ($ millions)

Debt securities issued at amortized cost	**30-Jun-14**	**30-Jun-13**	**31-Dec-13**
Commercial Paper issued	$ 448.8	$ 648.6	$ 527.2
Medium term notes issued	871.1	269.7	570.3
	1,319.9	918.3	1,097.5
Deposits and Trading Liabilities by type			
Mandatory Deposits	6,242.8	5,837.7	5,971.2
Non-Mandatory Deposits	1,911.4	2,343.9	1,879.2
Deposits from member credit unions	8,154.2	8,181.6	7,850.4
Deposits from non member credit unions	939.5	635.4	716.1
	9,093.7	8,817.0	8,566.5
Securities under repurchase agreements	83.8	218.2	106.7
Total Borrowings	$ 10,497.4	$ 9,953.5	$ 9,770.7

Total Debt securities oustanding as at June 30, 2014 were $1.3 billion, which is an increase of $0.4 billion from a year ago. Of the total amount outstanding as at June 30, 2014, $0.9 billion was borrowed under Central 1's Medium Term Note facility and the remainder was borrowed through Central 1's Commercial Paper facility.

In aggregate, deposits from Central 1's member credit unions were $8.2 billion as at June 30, 2014, essentially unchanged from a year ago. Credit union mandatory deposits grew by $0.3 billion over the year, to reach $6.2 billion as at June 30, 2014, reflecting the growth of both the B.C. and the Ontario credit union systems during the same period. Excess deposits from credit unions were $1.9 billion as at June 30, 2014, a decrease of $0.4 million from the same period last 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 NHA 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 Notes 7, 11 and 16 of the interim consolidated financial statements.

Equity

The Statement of Changes in Equity summarizes the changes in Equity for the six month period ended June 30, 2014. Central 1's Equity increased by $28.1 million during the period to $904.5 million. The increase in Equity can be attributed to the growth in Retained earnings and in the fair value reserve during the period. This is compared to an increase in Equity of $15.6 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, page 13*). Interest margin has generally 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 into 2013, Central 1 reduced the risk exposures in its investment portfolio which resulted in assets declining more than yields on liabilities during those periods. In the latter half of 2013, Central 1 began to transition its investment portfolio to meet the criteria in OSFI's Liquidity Adequacy Requirements. Central 1 is also transitioning the MRP to ensure that it meets the FICOM requirements which came into effect in 2014.

Gains and losses on disposal of financial instruments 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.

Second Quarter 2014 Compared to First Quarter 2014

Other income in the quarter of $31.2 million increased from $27.6 million compared to the first quarter. The increase of $3.6 million is due to an increase of $0.9 million in Technology and Payment Services, $0.6 million in Wholesale Financial Services, $1.2 million in Central 1's equity interest in affiliates and $0.4 million in annual dividends from Central 1's System Affiliates.

Central 1's Technology and Payments Services revenues increased from $16.4 million in the first quarter of 2014 to $17.3 million. The increase can be attributed to higher processing fees attributed to the paper payments processing business as well as higher revenues associated with Interac transaction volumes in the electronic payments processing business.

Wholesale Financial Services revenues were up from $4.0 million in the first quarter of 2014 to $4.6 million in the current quarter. The increase can be attributed to an increase in foreign exchange income by $0.3 million and annual dividends from certain Central 1's System Affiliates of $0.4 million. Equity interest in affiliates was up $1.2 million over the previous quarter.

Operating Expenses

Operating expenses increased from $31.3 million in the first quarter of 2014 to $33.6 million in the second quarter. Salaries and employee benefits expense increased from $17.9 million during the first quarter of 2014 to $18.3 million in the current quarter. Included in salaries and benefits in the first quarter of 2014 was an accrual of $1.0 million pursuant to a contractual agreement with one member of Central 1's executive management team who announced that they would be leaving Central 1. Included in salaries and benefits in the second quarter was an accrual of $1.8 million pursuant to a contractual relationship with one member of Central 1's executive management team who announced that they would be leaving Central 1. After adjusting for these non-recurring charges, the salary and benefits expense in the current quarter decreased to $16.5 million from $16.9 million in the first quarter of 2014.

The cost of sales and services reported were $7.0 million in the current quarter compared with $6.7 million in the first quarter. Additionally, professional fees which are included in Other administrative expenses, increased by $0.6 million compared to the first quarter related to costs associated with legal and consulting services related to the review of Central 1's governance structure.

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

	2014/2013 Period Ended				2013/2012 Period Ended			
	30-Sep-13	**31-Dec-13**	**31-Mar-14**	**30-Jun-14**	**30-Sep-12**	**31-Dec-12**	**31-Mar-13**	**30-Jun-13**
Total interest income	$ 54,159	$ 52,898	$ 48,873	$ 47,131	$ 74,791	$ 73,033	$ 64,398	$ 62,001
Total interest expense	46,604	42,741	41,383	40,299	65,306	63,901	56,611	54,200
Interest margin	7,555	10,157	7,490	6,832	9,485	9,132	7,787	7,801
Gain (loss) on disposal of financial instruments	(4,157)	5,304	15,113	(21,252)	11,735	1,632	8,099	16,906
Changes in fair value of financial instruments	9,661	4,931	4,934	33,572	10,367	3,768	13,670	1,028
Recovery (provision) of credit losses	149	264	47	186	872	1,995	745	45
Other income	25,723	34,099	27,562	31,248	26,179	28,250	27,424	28,583
Net financial and other income	38,931	54,755	55,146	50,586	58,638	44,777	57,725	54,363
Operating expenses	(28,826)	(33,083)	(31,309)	(33,642)	(27,641)	(30,470)	(33,119)	(31,748)
Income taxes	(1,727)	(2,095)	(3,255)	(2,277)	(4,289)	(1,777)	(3,167)	(3,559)
Profit for the period	$ 8,378	$ 19,577	$ 20,582	$ 14,667	$ 26,708	$ 12,530	$ 21,439	$ 19,056
Weighted average shares outstanding *(millions)*	293.5	298.4	307.2	311.6	281.2	287.6	291.4	293.3
Earnings per share								
Basic *(cents)*	2.9	6.6	6.7	4.7	9.5	4.4	7.4	6.5
Diluted *(cents)*	2.9	6.6	6.7	4.7	9.5	4.4	7.4	6.5

* 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 Compared to Prior Year to Date

Other income for the six months increased from $56.0 million in 2013 to $58.8 million in 2014. Processing fees earned by Central 1's Technology and Payments Services Group increased from $20.6 million in 2013 to $22.2 million in 2014. These increases reflect higher prices associated with the paper payments transactions and higher processing volumes in the electronic payments area.

Foreign exchange income improved from $2.0 million in 2013 to $3.6 million in 2014. Included in Other income within the Wholesale Financial Services area, are dividends received from entities affiliated with the credit union system which declined from $1.1 million in 2013 to $0.5 million in 2014.

Operating Expenses

Operating expenses for the first six months in 2014 of $65.0 million were slightly higher than the $64.9 million of operating expenses in 2013. Salaries and employee benefit expenses of $36.2 million in the current year were marginally lower than the $36.5 million in the prior year. During the first six months of 2014, Central 1 recorded restructuring charges of $2.8 million, down significantly from restructuring charges of $4.9 million recognized in the same period a year ago. Adjusting for the one time impact of the restructuring, overall salaries and employee benefits increased from $31.6 million in the first six months of 2013 to $33.4 million in the first six months of 2014. The increase in salaries and benefits expense in the first six months of 2014 from the first six months of 2013 is due to an increased number of personnel and market based wages.

Results by Operating Segment

The following table summarizes the segment results for the six months ended and three months ended June 30, 2014 as compared to the quarter ended March 31, 2014:

Figure 6a - Results by segment

(thousands of dollars)	For the six months ended June 30, 2014				
	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery for credit losses	$ 16,577	$ 32,760	$ 259	$ (2,674)	$ 46,922
Other income	276	35,175	11,723	11,636	58,810
Net financial and other income	16,853	67,935	11,982	8,962	105,732
Net operating expenses	3,619	35,103	13,920	12,309	64,951
Profit (loss) before income taxes	13,234	32,832	(1,938)	(3,347)	40,781
Income taxes (recoveries)	2,064	5,122	(302)	(1,352)	5,532
Profit (loss) for the period	$ 11,170	$ 27,710	$ (1,636)	$ (1,995)	$ 35,249
Total assets at June 30, 2014	$ 6,800,603	$ 6,075,914	$ 21,264	$ 230,591	$ 13,128,372
Total liabilities at June 30, 2014	$ 6,387,233	$ 5,617,523	$ 1,484	$ 217,660	$ 12,223,900
Total equity at June 30, 2014	$ 413,370	$ 458,391	$ 19,780	$ 12,931	$ 904,472

Results by segment

(thousands of dollars)	For the three months ended June 30, 2014				
	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery for credit losses	$ 2,658	$ 17,904	$ 110	$ (1,334)	$ 19,338
Other income	270	18,027	5,955	6,996	31,248
Net financial and other income	2,928	35,931	6,065	5,662	50,586
Net operating expenses	1,902	17,449	7,087	7,204	33,642
Profit (loss) before income taxes	1,026	18,482	(1,022)	(1,542)	16,944
Income taxes (recoveries)	160	2,883	(159)	(607)	2,277
Profit (loss) for the period	$ 866	$ 15,599	$ (863)	$ (935)	$ 14,667

Figure 6b - Results by segment

(thousands of dollars)	For the three months ended March 31, 2014				
	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery for credit losses	$ 13,919	$ 14,856	$ 149	$ (1,340)	$ 27,584
Other income	6	17,148	5,768	4,640	27,562
Net financial and other income	13,925	32,004	5,917	3,300	55,146
Net operating expenses	1,717	17,654	6,833	5,105	31,309
Profit (loss) before income taxes	12,208	14,350	(916)	(1,805)	23,837
Income taxes (recoveries)	1,904	2,239	(143)	(745)	3,255
Profit (loss) for the period	$ 10,304	$ 12,111	$ (773)	$ (1,060)	$ 20,582
Total assets at March 31, 2014	$ 6,731,037	$ 5,443,166	$ 23,670	$ 230,920	$ 12,428,793
Total liabilities at March 31, 2014	$ 6,325,869	$ 4,995,175	$ 3,028	$ 217,662	$ 11,541,734
Total equity at March 31, 2014	$ 405,168	$ 447,991	$ 20,642	$ 13,258	$ 887,059

As indicated in Note 24, Central 1's operations and activities are organized around three key business segments: MRP, Wholesale Financial Services and Trade Services. All other operating activities, including internal support functions, have been included in "Other" in the table above. The Trade Services operating segment delivers operational support, strategic consulting and research services tailored to the needs of member credit unions.
Net profit after tax for the three months ended June 30, 2014 is $14.7 million as compared to $20.6 million for the quarter ended March 31, 2014.

For the three months ended June 30, 2014, the MRP and Wholesale Financial Services segments had a combined profit of $16.5 million as compared to $22.4 million for the three months ended March 31, 2014. Net financial income including recovery for credit losses declined from $28.8 million in the three months ended March 31, 2014 to $20.6 million in the second quarter of 2014. Other income increased from $17.1 million for the first three months of 2014 to $18.3 million in the second three months of 2014. This is largely attributable to an increase in Payments revenues, which increased by $0.9 million from the first quarter to the second quarter of 2014. This was offset by an increase in operating expenses from $19.4 million during the three months ended March 31, 2014 to $20.3 million for the three months ended June 30, 2014.

Central 1's Trade Services segment had a loss of $0.9 million for the second quarter of 2014 as compared to a loss of $0.8 million in the first quarter of 2014. Central 1's other operating areas recorded a loss of $0.9 million in the second quarter of 2014 as compared to a loss of $1.1 million in the first quarter of 2014. Included in other operating areas was equity income from Central 1's affiliates and dividends from entities affiliated with the credit union system which, in aggregate, increased by $1.6 million in the second quarter of the year. Also included in the "Other" segment were restructuring charges of $1.0 million during the first quarter of 2014 and $1.8 million during the second quarter of the year.

Capital Resources

Central 1 must ensure that it has sufficient regulatory capital to meet both its federal and provincial regulatory capital requirements. Federal regulations, which are applied to Central 1's consolidated statement of financial position, allow for a borrowing multiple of 20.0:1. Notwithstanding this federal requirement, FICOM requires that Central 1 maintain a federal borrowing multiple of no more than 16.0:1 for the MRP business line and no more than 14.0:1 for the ELP business line.

Under provincial regulations, Central 1 is required to risk-weight its assets under a modified Bank for International Settlements ("BIS") approach. FICOM's Internal Capital Target Guideline requires regulatory capital to be at least 10.0% of risk-weighted assets to accommodate a buffer over the legislated 8.0% risk-weighted asset requirement. This is consistent with the legislated 10.0% risk-weighted asset requirements of Central 1 that permits B.C. credit unions to risk-weight their deposits with Central 1 at 0.0%.

Central 1's target range for its borrowing multiple is 12.0:1 to 15.0:1 (previously 14.0:1 to 17.0:1) and its level of Total Regulatory Capital as a percentage of Risk Weighted Assets is targeted to be in excess of 15.0%. This is to ensure that Central 1 has the 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.

Figure 7a - Capital Targets

	30-Jun-14	30-Jun-13	31-Dec-13	Target	Regulatory Requirement
Total Regulatory Capital as % of Risk-Weighted Assets	57.2%	41.7%	47.1%	> 15%	≥ 10%
Borrowing Multiple - Consolidated	10.5:1	13.2:1	12.5:1	12.0:1 - 15.0:1	≤ 20.0:1
Borrowing Multiple - MRP	15.1:1	N/A	15.4:1	14.0:1 - 15.5:1	≤ 16.0:1
Borrowing Multiple - ELP	7.6:1	N/A	10.9:1	10.0:1 - 14.0:1	≤ 14.0:1

Central 1's borrowing multiple for federal capital adequacy purposes was 10.5:1, down from 12.5:1 at December 2013 and its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes increased from 47.1% to 57.2% during the same period. The improvement in regulatory capital is primarily due to the increase in capital base. The decrease in the borrowing multiple reflects Central 1's issuance of subordinated notes with par value of $200 million on April 25, 2014, as well as an increase in Retained earnings.

As at June 30, 2014, the federal borrowing multiple for Central 1's MRP business line was 15.1:1, which is in compliance with FICOM requirement of 16.0:1. Central 1 has regularly scheduled semi-annual share calls in May and November of each year intended to increase its regulatory capital to reflect growth in Mandatory deposits. Prior to 2014, the Class A shares requested in Central 1's semi-annual share calls was determined in the context of Central 1's operating target range of 14.0:1 to 17.0:1.

Figure 7b - Capital Position ($ thousands)

	30-Jun-14	30-Jun-13	31-Dec-13
Share Capital	$ 315,951	$ 293,472	$ 307,185
Contributed Surplus	87,901	87,901	87,901
Retained Earnings	456,905	412,454	433,171
Less: Adjustments	(4,285)	(4,529)	(4,285)
Tier 1 Capital	856,472	789,298	823,972
Subordinated Debt	368,000	168,000	168,000
Add: Adjustments	4,285	4,529	4,285
Tier 2 Capital	372,285	172,529	172,285
Total Capital	1,228,757	961,827	996,257
Statutory Capital Adjustments	(157,154)	(147,511)	(151,827)
Capital Base (Federal)	$ 1,071,603	$ 814,316	$ 844,430
Capital Base (Provincial)	$ 1,061,111	$ 809,780	$ 837,617

Central 1's regulatory capital base for federal purposes is calculated in Figure 7b above. As at June 30, 2014, Central 1's federal Tier 1 Capital was $856.5 million and Total Capital before deductions was $1,228.7 million, compared to $789.3 million and $961.8 million, respectively, a year earlier. The increase in the Total Capital before deductions over the past year includes subordinated debt issued in 2014 and the growth in Central 1's Retained earnings. In determining regulatory capital, adjustments are required to amounts reflected in Central 1's consolidated statement of financial position. The calculation of Central 1's capital base for provincial purposes is similar to the federal calculation.

On April 25, 2014, Central 1 issued $200.0 million principal amount of 2.89% Series 4 subordinated notes due April 25, 2024. The notes bear interest at a fixed rate of 2.89% until, but excluding April 25, 2019, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 0.81%. Both OSFI and FICOM have confirmed that these notes meet the criteria for inclusion in Tier 2 capital and are subject to straight-line amortization beginning 2019.

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, 2013.

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 risk appetite and investment policy define 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 20.0% and 25.0% decline in interest margin from the base forecast over a 12 month horizon for MRP and ELP, respectively, while the maximum decline in the Fair Value of Net Assets cannot exceed 10.0% and 12.0% for MRP and ELP, respectively.

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.

Figure 8 - Interest Rate Sensitivity ($ thousands)

Before Tax Impact of	MRP Amount	MRP % of Base Forecast	ELP & Other Amount	ELP & Other % of Base Forecast	Total Amount	Total % of Base Forecast
Interest Margin before Derivatives						
200 bps increase in rates	$ 8,151	33.1%	$ (17,536)	(67.4%)	$ (9,385)	(18.5%)
200 bps decrease in rates	$ (6,309)	(25.6%)	$ 8,840	34.0%	$ 2,531	5.0%
Net Interest Margin after Derivatives						
200 bps increase in rates	$ (1,965)	(8.8%)	$ 385	4.8%	$ (1,580)	(5.2%)
200 bps decrease in rates	$ 490	2.2%	$ 683	8.5%	$ 1,172	3.9%
Fair Value of Net Assets						
200 bps increase in rates	$ (15,133)	(3.7%)	$ (42,078)	(10.0%)	$ (57,211)	(6.9%)
200 bps decrease in rates	$ 2,350	0.6%	$ 25,291	6.0%	$ 27,641	3.3%

As at June 30 2014, the total net interest margin is negatively impacted by a rising interest rate environment and is positively impacted in the declining interest rate environment. It is estimated that the total interest margin will decline by 5.2% and increase by 3.9% from base case in a 200 basis points increase and 200 basis points decrease in rates, respectively. This is mainly because liabilities have shorter maturity than assets which creates refinancing risk and cause a decline in interest margin in a rising interest rate environment. Central 1 enters into derivatives transactions to hedge this exposure. Central 1's total interest margin is more negatively impacted in a rising interest rate environment.

As at June 30, 2014, the net interest margin for the MRP is negatively impacted by a rising interest rate environment and is fairly stable in the decreasing interest rate environment. Without the derivatives, MRP is very sensitive to interest rate movement and is positively impacted in a rising interest rate environment. The investment portfolio in MRP is composed of 30% floating rate instruments which mainly contributed to a very sensitive interest margin when interest rates move.

As at June 30, 2014, the net interest margin for the ELP is fairly stable and is slightly positively impacted in both rising and decreasing interest rate environment. It is estimated that the interest margin will increase by 4.8% and increase by 8.5% from base case in a 200 basis points increase and 200 basis points decrease in rates, respectively. The refinancing risk created by the asset-liability mismatch contributed to an interest margin that is negatively impacted in a rising interest rate environment. Central 1 enters into derivatives transactions to hedge the refinancing risk resulting to a fairly stable and slight positive impact in both rising and decreasing interest rate environment.

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 monthly and monitored by Risk Management Group. 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 9 of the interim consolidated financial statements. Credit risk associated with Central 1's credit union lending portfolio has been assessed by management as low. Member credit union loans are secured and are granted based on quantitative and qualitative credit assessments. 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, 2014, Central 1 recognizes regular way purchases and sales of financial assets on the trade date, whereas they were previously recognized on the settlement date. There were no adjustments to Central 1’s statement of financial position as at December 31, 2013 as a result of this change in accounting policy. The impact on Central 1’s statement of financial position as at June 30, 2013 was to increase assets and liabilities by $25.1 million as a result of this change in accounting policy.

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. 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, 2013.

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 the Canadian Securities Administrators’ 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 June 30, 2014. Based on that evaluation, management has concluded that the design of its internal monitoring controls and procedures over financial reporting was effective. There has been no change in Central 1's design of internal controls and procedures over financial reporting that has materially affected, or is reasonably likely to materially affect, Central 1's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

During the first and second quarter, phase 1 of a multi-phased treasury management system was implemented. This resulted in changes in the design of certain processes and controls related to accounting for investments. These changes had stabilized but were not yet finalized at the end of the quarter. Management has relied on the review and assessment of mitigating controls and procedures to obtain assurance and comfort around the relevant financial information and has concluded that there is no significant weakness that is likely to materially affect Central 1's financial reporting during the period covered by this Management's Discussion and Analysis.

Central 1 Credit Union
Interim Consolidated Statement of Financial Position
Unaudited

	Notes	June 30 2014	June 30 2013 (Note 3)	December 31 2013	January 1 2013 (Note 3)
		(Thousands of dollars)			
Assets					
Cash		$ 118,534	$ 62,773	$ 74,153	$ 90,238
Deposits with regulated financial institutions	5	5,639	6,152	7,132	106,275
Pledged trading assets	6	7,563	96,781	64,443	135,572
Reinvestment assets under the CMB and IMPP Programs	7	219,201	880,893	306,914	1,652,244
Non-pledged trading assets	6	5,887,470	2,484,372	4,312,413	2,678,954
Derivative assets	8	47,471	31,047	29,383	34,018
Loans	9	990,328	1,340,971	1,157,972	2,069,521
Investment securities	10	4,873,708	7,147,018	5,553,354	6,393,659
Secured loans to members	11	80,396	406,476	229,620	561,511
Current tax assets		4,385	10,375	4,338	-
Property and equipment		16,348	16,422	16,111	17,303
Intangible assets		14,327	7,868	12,198	6,412
Deferred tax assets		9,024	5,613	6,371	6,389
Investment in affiliates		121,241	110,495	120,107	110,170
Other assets	12	732,737	454,424	299,933	294,231
		$ 13,128,372	$ 13,061,680	$ 12,194,442	$ 14,156,497
Liabilities					
Deposits designated as trading	13	$ 4,691,257	$ 2,100,750	$ 3,398,893	$ 2,286,078
Derivative liabilities	8	117,901	165,945	150,645	216,042
Debt securities issued	14	1,319,899	918,329	1,097,509	1,170,804
Deposits	15	4,402,422	6,716,284	5,167,617	6,564,336
Obligations under the CMB and IMPP Programs	16	668,766	1,496,482	831,762	2,259,992
Subordinated liabilities	17	369,037	168,968	169,139	168,859
Provisions		3,368	5,124	3,991	5,280
Securities under repurchase agreements		83,821	218,236	106,706	201,433
Current tax liabilities		-	-	-	2,580
Deferred tax liabilities		5,146	4,025	4,699	2,929
Other liabilities	18	562,283	444,787	387,143	471,074
		12,223,900	12,238,930	11,318,104	13,349,407
Equity					
Share capital	19	315,951	293,472	307,185	290,299
Contributed surplus		87,901	87,901	87,901	87,901
Retained earnings		456,905	412,452	433,171	374,841
Accumulated other comprehensive income		30,459	16,450	35,078	39,459
Reserves		3,379	2,822	3,130	4,985
Total equity attributable to members of Central 1		894,595	813,097	866,465	797,485
Non-controlling interest		9,877	9,653	9,873	9,605
		904,472	822,750	876,338	807,090
		$ 13,128,372	$ 13,061,680	$ 12,194,442	$ 14,156,497
Guarantees, commitments, and contingencies	25				

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	(Thousands of dollars) For the three months ended June 30 2014	June 30 2013	(Thousands of dollars) For the six months ended June 30 2014	June 30 2013
Interest income					
Securities		$ 38,470	$ 39,488	$ 77,927	$ 77,964
Deposits with regulated financial institutions		29	76	71	169
Loans		6,463	7,387	13,419	16,300
Secured loans and reinvestment assets		2,169	15,050	4,587	31,966
		47,131	62,001	96,004	126,399
Interest expense					
Debt securities issued		5,204	4,163	9,942	9,731
Deposits		28,786	30,621	59,295	61,565
Obligations under the CMB and IMPP programs		3,915	17,796	8,587	36,268
Subordinated liabilities		2,394	1,620	3,858	3,247
		40,299	54,200	81,682	110,811
Interest margin		6,832	7,801	14,322	15,588
Gain (loss) on disposal of financial instruments	20	(21,252)	16,906	(6,139)	25,005
Changes in fair value of financial instruments	21	33,572	1,028	38,506	14,698
Net financial income		19,152	25,735	46,689	55,291
Recovery for credit losses	9	(186)	(45)	(233)	(790)
		19,338	25,780	46,922	56,081
Other income	22	31,248	28,583	58,810	56,007
Net financial and other income		50,586	54,363	105,732	112,088
Operating expenses					
Salaries and employee benefits		18,321	15,985	36,187	36,515
Premises and equipment		2,530	2,256	4,885	4,778
Other administrative expenses		12,791	13,507	23,879	23,574
		33,642	31,748	64,951	64,867
Profit before income taxes		16,944	22,615	40,781	47,221
Income taxes	23	2,277	3,559	5,532	6,726
Profit for the period		$ 14,667	$ 19,056	$ 35,249	$ 40,495

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 2014	June 30 2013	(Thousands of dollars) For the six months ended June 30 2014	June 30 2013
Profit for the period	$ 14,667	$ 19,056	$ 35,249	$ 40,495
Other comprehensive loss, 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]	3,058	(30,187)	12,752	(11,940)
Reclassification of realized gains on available-for-sale assets to profit or loss[2]	(8,267)	(6,982)	(17,518)	(11,377)
	(5,209)	(37,169)	(4,766)	(23,317)
Item that will not be reclassified subsequently to profit or loss				
Net actuarial gains on employee benefits plans[3]	147	308	147	308
Other comprehensive loss, net of tax	(5,062)	(36,861)	(4,619)	(23,009)
Comprehensive income (loss), net of tax	$ 9,605	$ (17,805)	$ 30,630	$ 17,486
Income tax (recoveries) deducted from the above items				
Income tax (recoveries) on items that may be reclassified subsequently to profit or loss				
[1] Net change in fair value of available-for-sale assets	$ 494	$ (5,285)	$ 2,176	$ (2,340)
[2] Reclassification of realized gains on available-for-sale assets to profit or loss	$ (1,528)	$ (1,449)	$ (3,238)	$ (2,097)
[3] Net actuarial gains on employee benefits plans	$ (147)	$ (308)	$ (147)	$ (308)

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
	Attributable to equity holders								
Balance at January 1, 2014 (Note 3)	$ 307,185	$ 87,901	$ 433,171	$ 38,453	$ (3,375)	$ 3,130	$ 866,465	$ 9,873	$ 876,338
Total comprehensive income for the period									
Profit for the period			35,245				35,245	4	35,249
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(4,766)			(4,766)		(4,766)
Employee benefits reserve (net of tax)					147		147		147
Total comprehensive income	-	-	35,245	(4,766)	147	-	30,626	4	30,630
Transactions with owners, recorded directly in equity									
Dividends to members			(13,234)				(13,234)		(13,234)
Related tax savings			2,065				2,065		2,065
Class "E" shares redemption			(110)				(110)		(110)
Related tax savings			17				17		17
Net Classes "A", "B" and "C" shares issued	8,766						8,766		8,766
Transfer from reserves			(249)			249	-		-
Total contributions and distributions to owners	8,766	-	(11,511)	-	-	249	(2,496)	-	(2,496)
Balance at June 30, 2014	$ 315,951	$ 87,901	$ 456,905	$ 33,687	$ (3,228)	$ 3,379	$ 894,595	$ 9,877	$ 904,472

Profit attributable to:	2014	2013
Members of Central 1	$ 35,245	$ 40,667
Non-controlling interest	4	(172)
	$ 35,249	$ 40,495

Total comprehensive income attributable to:	2014	2013
Members of Central 1	$ 30,626	$ 17,658
Non-controlling interest	4	(172)
	$ 30,630	$ 17,486

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
	Attributable to equity holders								
Balance at January 1, 2013 (Note 3)	$ 290,299	$ 87,901	$ 374,841	$ 46,326	$ (6,867)	$ 4,985	$ 797,485	$ 9,605	$ 807,090
Total comprehensive income for the period									
Profit for the period			40,667				40,667	(172)	40,495
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(23,317)			(23,317)		(23,317)
Employee benefits reserve (net of tax)					308		308		308
Total comprehensive income	-	-	40,667	(23,317)	308	-	17,658	(172)	17,486
Transactions with owners, recorded directly in equity									
Dividends to members			(6,257)				(6,257)		(6,257)
Related tax savings			1,041				1,041		1,041
Class "E" shares redemption			(4)				(4)		(4)
Related tax savings			1				1		1
Net Classes "A", "B" and "C" shares issued	3,173						3,173		3,173
Preferred shares issued by subsidiary							-	220	220
Transfer from reserves			2,163			(2,163)	-		-
Total contributions and distributions to owners	3,173	-	(3,056)	-	-	(2,163)	(2,046)	220	(1,826)
Balance at June 30, 2013	$ 293,472	$ 87,901	$ 412,452	$ 23,009	$ (6,559)	$ 2,822	$ 813,097	$ 9,653	$ 822,750

See accompanying notes to the interim consolidated financial statements

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 2014	June 30 2013	June 30 2014	June 30 2013
Cash flows from operating activities				
Profit for the period	$ 14,667	$ 19,056	$ 35,249	$ 40,495
Adjustments for:				
Depreciation and amortization	(2,287)	1,195	(1,193)	2,300
Net interest income	(6,832)	(7,801)	(14,322)	(15,588)
Gain (loss) on disposal of financial instruments	21,252	(16,906)	6,139	(25,005)
Changes in fair value of financial instruments	(33,572)	(1,028)	(38,506)	(14,698)
Income tax expense	2,277	3,559	5,532	6,726
Recovery for credit losses	(186)	(45)	(233)	(790)
Other items, net	2,711	(4,708)	(27)	(6,436)
	(1,970)	(6,678)	(7,361)	(12,996)
Change in trading assets	(1,474,801)	75,826	(1,502,553)	207,286
Change in settlements in transit	(529,875)	(54,036)	(258,758)	(188,947)
Change in loans	64,820	105,972	167,699	725,714
Change in trading liabilities	754,193	(26,828)	1,274,475	(164,552)
Change in deposits	(113,494)	(281,793)	(755,924)	155,670
Change in derivative assets and liabilities	(36,821)	(10,124)	(43,817)	(34,155)
	(1,337,948)	(197,661)	(1,126,239)	688,020
Interest received	56,313	79,041	107,492	137,947
Interest paid	(47,382)	(77,272)	(85,014)	(126,414)
Income tax paid	(15)	(3,131)	(4,530)	(7,663)
	(1,329,032)	(199,023)	(1,108,291)	691,890
Cash flows from investing activities				
Change in deposits with regulated financial institutions	1,421	361	1,421	100,043
Change in reinvestment assets under the CMB and IMPP programs	(40,821)	808,361	87,308	768,221
Change in investment securities	849,278	183,638	686,354	(768,149)
Change in secured loans to members	104,374	89,899	148,639	152,658
Disposition (acquisition) of property, plant and equipment	(1,215)	(756)	(2,141)	(722)
Disposition (acquisition) of intangible assets	2,778	(1,159)	1,152	(1,969)
	915,815	1,080,344	922,733	250,082
Cash flows from financing activities				
Change in obligations under the CMB and IMPP Programs	15,861	(822,854)	(163,454)	(735,464)
Change in subordinated liabilities	200,000		200,000	-
Change in debt securities issued	171,307	(163,314)	221,558	(250,879)
Change in securities under repurchase agreements	54,445	67,085	(22,953)	16,767
Dividends paid	-	-	(13,978)	(3,034)
Issuance of shares	8,766	142	8,766	3,173
	450,379	(918,941)	229,939	(969,437)
Increase (decrease) in cash	37,162	(37,620)	44,381	(27,465)
Cash - beginning of period	81,372	100,393	74,153	90,238
Cash - end of period	$ 118,534	$ 62,773	$ 118,534	$ 62,773

See accompanying notes to the interim consolidated financial statements

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1. Incorporation and governing legislation

Central 1 Credit Union ("Central 1") is domiciled in Canada with a registered office located at 1441 Creekside Drive, Vancouver, British Columbia V6J 4S7, Canada. Central 1 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 interim consolidated financial statements of Central 1 cover 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") as issued by the International Accounting Standards Board.

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 22, 2014.

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 interim consolidated financial statements are to be prepared in accordance with Canadian Generally Accepted Accounting Principles ("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 10.
- 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 judgments

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

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

Note 5 of Central 1's annual consolidated financial statements for the year ended December 31, 2013 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, 2013.

(e) Segment information

Note 24 contains information on segment reporting in accordance with *IFRS 8 Operating segments*. There is no comparative data available for periods prior to January 1, 2014.

3. Accounting policies

Except as indicted below, these interim consolidated 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, 2013.

Trade date accounting

Effective January 1, 2014, Central 1 recognizes regular way purchases and sales of financial assets on the trade date, whereas they were previously recognized on the settlement date. There were no adjustments to Central 1's statement of financial position as at December 31, 2013 as a result of this change in accounting policy.

The following tables summarize the impact of change to trade date accounting as at January 1, 2013 and June 30, 2013:

	(Thousands of dollars)		
	January 1, 2013	Change in Accounting Policy	As revised January 1, 2013
Statement of financial position			
Assets			
Investment securities	$ 6,386,581	$ 7,078	$ 6,393,659
Liabilities			
Other liabilities	$ 463,996	$ 7,078	$ 471,074

Central 1 Credit Union
Notes to the Interim Consolidated Financial Statements
Unaudited
Period ended June 30, 2014

	(Thousands of dollars)		
	June 30, 2013	Change in accounting policy	As revised June 30, 2013
Statement of financial position			
Assets			
Investment securities	$ 7,131,883	$ 15,135	$ 7,147,018
Current tax assets	10,378	(3)	10,375
Other assets	444,426	9,998	454,424
	7,586,687	25,130	7,611,817
Liabilities			
Other liabilities	$ 419,679	$ 25,108	$ 444,787
Equity			
Retained earnings	412,454	(2)	412,452
Accumulated other comprehensive income	16,426	24	16,450
	$ 428,880	$ 22	$ 428,902

	(Thousands of dollars) For the six months ended		
	June 30, 2013	Change in accounting policy	As revised June 30, 2013
Other comprehensive income			
Net change in fair value, net of tax	$ (11,964)	$ 24	$ (11,940)
Income tax (recoveries) deducted from the above item	(2,343)	3	(2,340)
Statement of profit or loss			
Gain (loss) on disposal of financial instruments	$ 25,007	$ (2)	$ 25,005

Operating segments

Also effective January 1, 2014, Central 1's management commenced disclosing its operating units which meet the definition of Operating segments in accordance with *IFRS 8 – Operating Segments*. Previously, discrete information was not available for these Operating segments and therefore comparative information has not been included in these interim consolidated financial statements. Further information is included in Note 24.

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 securities and amounts on deposit classified either as available-for-sale or held for trading. 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. Valuation techniques which use quoted market data are used to derive the fair value of financial assets and financial liabilities.

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, discount rates and use of appropriate benchmarks and spreads.

The use of valuation techniques as described above represents a change in methodology for Central 1. Previously quoted prices in an active market were used where possible to value financial assets and financial liabilities. Where quoted prices did not exist, quoted market prices for similar securities, other third party evidence or valuation techniques were used. Management is of the view that the resulting fair values from the new valuation techniques more accurately reflect the amount which would be received (or paid) in an orderly transaction between market participants.

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.

Central 1 Credit Union
Notes to the Interim Consolidated Financial Statements
Unaudited
Period ended June 30, 2014

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

June 30, 2014 (Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Assets						
Cash	$ -	$ -	$ -	$ -	$ 118.5	$ 118.5
Deposits with regulated financial institutions	-	-	-	-	5.6	5.6
Pledged trading assets	-	7.6	-	7.6	-	7.6
Reinvestment assets under the CMB and IMPP programs	-	219.2	-	219.2	-	219.2
Non-pledged trading assets	-	5,887.5	-	5,887.5	-	5,887.5
Derivative assets	-	47.5	-	47.5	-	47.5
Loans	-	-	-	-	990.3	990.3
Investment securities	-	4,832.4	9.2	4,841.6	32.1	4,873.7
Secured loans to members	-	-	80.4	80.4	-	80.4
Current tax assets	-	-	-	-	4.4	4.4
Property and equipment	-	-	-	-	16.4	16.4
Intangible assets	-	-	-	-	14.3	14.3
Deferred tax assets	-	-	-	-	9.0	9.0
Investment in affiliates	-	-	-	-	121.3	121.3
Other assets	-	-	-	-	732.7	732.7
Total assets	$ -	$ 10,994.2	$ 89.6	$ 11,083.8	$ 2,044.6	$ 13,128.4
Liabilities						
Deposits designated as trading	$ -	$ 4,691.3	$ -	$ 4,691.3	$ -	$ 4,691.3
Derivative liabilities	-	117.9	-	117.9	-	117.9
Debt securities issued	-	-	-	-	1,319.9	1,319.9
Deposits	-	-	-	-	4,402.4	4,402.4
Obligations under the CMB and IMPP programs	-	668.8	-	668.8	-	668.8
Subordinated liabilities	-	-	-	-	369.0	369.0
Provisions	-	-	-	-	3.4	3.4
Securities under repurchase agreements	-	-	-	-	83.8	83.8
Deferred tax liabilities	-	-	-	-	5.1	5.1
Other liabilities	-	-	-	-	562.3	562.3
Total liabilities	-	5,478.0	-	5,478.0	6,745.9	12,223.9
Net assets (liabilities)	$ -	$ 5,516.2	$ 89.6	$ 5,605.8	$ (4,701.3)	$ 904.5

[1]Amounts carried at amortized cost include financial instruments classified as 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, 2013 (Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost[1]	Total Carrying Value
Assets	$ -	$ 10,225.2	$ 238.8	$ 10,464.0	$ 1,730.4	$ 12,194.4
Liabilities	-	4,381.3	-	4,381.3	6,936.7	11,318.0
Net assets (liabilities)	$ -	$ 5,843.9	$ 238.8	$ 6,082.7	$ (5,206.3)	$ 876.4

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

(Millions of dollars)	Fair Value at December 31, 2013	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at June 30, 2014
Secured loans to members	$ 229.6	$ -	$ (148.8)	$ -	$ (0.4)	$ 80.4
Equity shares	9.2	-	-	-	-	9.2
Net assets	$ 238.8	$ -	$ (148.8)	$ -	$ (0.4)	$ 89.6

	Fair Value at January 1, 2013	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at December 31, 2013
Net assets	$ 570.7	$ -	$ (329.3)	$ -	$ (2.6)	$ 238.8

Note 26 sets out the fair value of the financial instruments in the interim consolidated statement of financial position.

5. Deposits with regulated financial institutions

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

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amortized cost	**$ 5,639**	$ 6,152	$ 7,132	$ 106,275
Fair value	**$ 4,873**	$ 6,104	$ 7,165	$ 106,334

6. Trading assets

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

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Government & guarantees	**$ 4,186,342**	$ 1,467,613	$ 2,587,633	$ 1,431,450
Corporate & financial institutions AA[1] or greater	**1,668,603**	1,051,582	1,722,808	1,284,990
Other	**40,088**	61,958	66,415	98,086
Fair value	**$ 5,895,033**	$ 2,581,153	$ 4,376,856	$ 2,814,526

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

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amortized cost	**$ 5,852,584**	$ 2,545,697	$ 4,337,025	$ 2,708,564
Fair value	**$ 5,895,033**	$ 2,581,153	$ 4,376,856	$ 2,814,526
Less pledged trading assets	**(7,563)**	(96,781)	(64,443)	(135,572)
Non-pledged trading assets	**$ 5,887,470**	$ 2,484,372	$ 4,312,413	$ 2,678,954

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, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Trading assets	**$ 7,563**	$ 96,781	$ 64,443	$ 135,572
Amounts included in investment securities	**83,156**	130,679	46,269	58,905
	$ 90,719	$ 227,460	$ 110,712	$ 194,477

7. Reinvestment assets under the CMB and IMPP programs

As principal and interest payments on the underlying 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 and IMPP programs classified as at fair value through profit and loss:

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Government and guarantees	**$ 85,087**	$ 159,544	$ 65,698	$ 491,590
Assets acquired under reverse repurchase agreements	**60,046**	212,492	89,242	148,840
Fair value	**$ 145,133**	$ 372,036	$ 154,940	$ 640,430
Amortized cost	**$ 144,870**	$ 371,189	$ 154,512	$ 638,117

Reinvestment assets under the CMB and IMPP programs classified as available-for-sale:

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Fair value of government & guarantees	**$ 74,068**	$ 508,857	$ 151,974	$ 1,011,814
Amortized cost	**$ 73,733**	$ 508,488	$ 151,715	$ 1,010,630
Total reinvestment assets under the CMB and IMPP programs	**$ 219,201**	$ 880,893	$ 306,914	$ 1,652,244

8. Derivative assets and liabilities

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

(Thousands of dollars)

	June 30, 2014		June 30, 2013		December 31, 2013		January 1, 2013	
	Asset	**Liability**	Asset	Liability	Asset	Liability	Asset	Liability
Interest rate contracts								
Forward rate agreements	**$ -**	**$ -**	$ -	$ -	$ -	$ 3	$ 25	$ 10
Swap contracts	**111,541**	**182,219**	112,080	247,821	97,261	218,728	169,076	350,988
Options purchased	**211**	**-**	192	-	286	-	218	-
Options written	**-**	**215**	-	204	-	302	-	264
	111,752	**182,434**	112,272	248,025	97,547	219,033	169,319	351,262
Foreign exchange contracts								
Foreign exchange spot and forward contracts	**1,684**	**1,432**	3,893	3,038	1,567	1,343	353	434
Other								
Equity index-linked options	**18,842**	**18,842**	12,554	12,554	17,659	17,659	14,338	14,338
Total fair value before adjustment	**132,278**	**202,708**	128,719	263,617	116,773	238,035	184,010	366,034
Adjustment for master netting agreements	**(84,807)**	**(84,807)**	(97,672)	(97,672)	(87,390)	(87,390)	(149,992)	(149,992)
	$ 47,471	**$ 117,901**	$ 31,047	$ 165,945	$ 29,383	$ 150,645	$ 34,018	$ 216,042

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 $43.05 million and $8.94 million, respectively.

9. Loans

		(Thousands of dollars)			
		June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Due on demand	- Credit unions	**$ 86,579**	$ 67,367	$ 162,986	$ 80,977
	- Commercial and others	**17,833**	9,635	4,107	1,661
		104,412	77,002	167,093	82,638
Term	- Credit unions	**510,439**	626,897	716,853	1,753,275
	- Commercial and others	**188,881**	174,885	180,496	187,392
	- Reverse repurchase agreements	**161,756**	433,856	66,874	11,485
	- Officers and employees	**11,504**	13,185	12,170	13,767
	- Mortgage pools	**12,421**	14,483	13,627	17,464
		885,001	1,263,306	990,020	1,983,383
		989,413	1,340,308	1,157,113	2,066,021
Accrued interest		**1,343**	1,708	1,444	5,084
		990,756	1,342,016	1,158,557	2,071,105
Allowance for credit losses		**(428)**	(1,045)	(585)	(1,584)
		$ 990,328	$ 1,340,971	$ 1,157,972	$ 2,069,521

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 2.49% to 3.05%.

Impaired loans are as follows:

				(Thousands of dollars)			
	Gross Impaired	Specific Allowance	Collective Allowance	**June 30, 2014**	June 30, 2013	December 31, 2013	January 1, 2013
Credit unions	$ -	$ -	$ -	**$ -**	$ -	$ -	$ -
Commercial and others	428	(403)	(25)	**-**	-	-	-
Total	$ 428	$ (403)	$ (25)	**$ -**	$ -	$ -	$ -

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

(Thousands of dollars)

	Specific Allowance	Collective Allowance	**Three months ended June 30, 2014**	**Six months ended June 30, 2014**	Three months ended June 30, 2013	Six months ended June 30, 2013
Balance at beginning of period	$ 529	$ 28	**$ 557**	**$ 585**	$ 1,158	$ 1,585
Net write-offs during the period	57	-	**57**	**76**	(68)	250
Recovery for credit losses	(182)	(4)	**(186)**	**(233)**	(45)	(790)
Balance at end of period	$ 404	$ 24	**$ 428**	**$ 428**	$ 1,045	$ 1,045

10. Investment securities

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

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amortized cost	**$ 4,846,004**	$ 7,094,368	$ 5,518,948	$ 6,345,691
Fair value	**$ 4,873,708**	$ 7,147,018	$ 5,553,354	$ 6,393,659

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

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Government & guarantees	**$ 2,932,043**	$ 3,197,971	$ 2,995,013	$ 2,735,237
Corporate & financial Institutions AA[1] or greater	**1,757,175**	3,773,039	2,376,386	3,479,314
Other	**184,490**	176,008	181,955	179,108
	$ 4,873,708	$ 7,147,018	$ 5,553,354	$ 6,393,659

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

The above table includes **$32.1** million (June 30, 2013 - $32.1 million; December 31, 2013 - $32.1 million; January 1, 2013 - $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 **$368.7** million (June 30, 2013 - $230.3 million; December 31, 2013 - $295.4 million; January 1, 2013 - $98.5 million) of third party MBS that were transferred to CHT under the CMB program as described in the significant accounting policies as disclosed in Central 1's consolidated financial statements for the year ended December 31, 2013.

At the period-end, securities having a par value of **$969.0** million (June 30, 2013 - $952.7 million; December 31, 2013 – $970.1 million; January 1, 2013 - $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.

11. Secured loans to members

Through its participation in the CMB and IMPP programs as described in the accounting policy disclosed in Central 1's consolidated financial statements for the year end December 31, 2013, 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)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Total amount of secured loans issued	**$ 4,240,559**	$ 4,240,559	$ 4,240,559	$ 4,240,559
Aggregate principal payments received	**(4,160,343)**	(3,836,387)	(4,011,960)	(3,684,253)
Remaining par value of secured loans to members in the interim consolidated statement of financial position	**$ 80,216**	$ 404,172	$ 228,599	$ 556,306

The components of these balances are as follows:

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Remaining par value of secured loans under the CMB and IMPP programs	**$ 36,996**	$ 196,176	$ 108,394	$ 284,135
Remaining par value of secured loans retained by Central 1	**43,220**	207,996	120,205	272,171
	$ 80,216	$ 404,172	$ 228,599	$ 556,306

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

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amortized cost	**$ 80,385**	$ 405,507	$ 229,231	$ 558,481
Fair value	**$ 80,396**	$ 406,476	$ 229,620	$ 561,511

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. A change in the mortgage prepayment rate changes the expected principal and interest cash flows of the secured loans. The impact of a sustained change in the prepayment rate and interest rate were calculated, based on an increase or decrease of 1% and 200 basis points, respectively. The sensitivity analysis showed there was no significant impact on the value of secured loans to members.

12. Other assets

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Settlements in-transit	**$ 713,885**	$ 437,531	$ 280,976	$ 279,402
Investment property	**5,460**	5,828	5,644	6,012
Prepaid expenses	**4,906**	5,385	3,714	2,961
Post-employment benefits	**3,387**	-	3,229	-
Accounts receivable and other	**5,099**	5,680	6,370	5,856
	$ 732,737	$ 454,424	$ 299,933	$ 294,231

The fair value of Central 1's investment property has been arrived at on the basis of internal and external market information which reflects similar properties. The fair value of investment property as at the end of the period approximates its carrying value.

Central 1 earns rental income on its investment property. The terms of existing lease agreements range between 1 and 5 years. The lessee does not have an option to purchase the property on the expiry of the lease period. The rental income earned for the period is disclosed in Note 22.

13. Deposits designated as trading

Deposits designated as trading are as follows:

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amortized cost	**$ 4,673,154**	$ 2,105,269	$ 3,392,920	$ 2,275,998
Fair value	**$ 4,691,257**	$ 2,100,750	$ 3,398,893	$ 2,286,078

The contractual maturity dates of these liabilities are as follows:

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amount				
Due within three months	**$ 1,239,029**	$ 146,131	$ 753,909	$ 299,315
Due after three months and within one year	**967,976**	518,319	635,787	817,942
Due after one year and within five years	**2,429,706**	1,422,570	1,985,265	1,140,414
Due after five years	**5,034**	9,103	-	-
	4,641,745	2,096,123	3,374,961	2,257,671
Accrued interest	**31,409**	9,146	17,959	18,327
Amortized cost	**$ 4,673,154**	$ 2,105,269	$ 3,392,920	$ 2,275,998

14. Debt securities issued

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Notes				
Due within three months	**$ 312,919**	$ 539,232	$ 527,248	$ 487,241
Due after three months and within one year	**705,547**	109,412	269,700	412,330
Due after one year and within five years	**299,508**	269,529	299,469	269,480
	1,317,974	918,173	1,096,417	1,169,051
Accrued interest	**1,925**	156	1,092	1,753
	$ 1,319,899	$ 918,329	$ 1,097,509	$ 1,170,804

Central 1 has established **$89.5** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At June 30, 2014, June 30, 2013, December 31, 2013 and January 1, 2013, 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 June 30, 2014, a par value of **$450.0** million was borrowed under the short-term commercial paper facility (June 30, 2013 - $650.0 million; December 31, 2013 - $528.0 million; January 1, 2013 – $588.0 million) and a par value of **$870.0** million was borrowed under the medium-term note facility (June 30, 2013 - $582.9 million; December 31, 2013 - $570.0 million; January 1, 2013 - $582.9 million).

15. Deposits

Deposits classified as other liabilities are as follows:

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amount				
Due on demand	**$ 1,403,196**	$ 1,231,805	$ 1,040,423	$ 951,469
Due within three months	**441,788**	1,341,871	688,463	1,424,996
Due after three months and within one year	**999,060**	1,339,108	1,258,919	1,342,227
Due after one year and within five years	**1,528,544**	2,767,374	2,146,019	2,806,894
Due after five years and less than six years	**5,311**	1,103	-	-
	4,377,899	6,681,261	5,133,824	6,525,586
Accrued interest	**24,523**	35,023	33,793	38,750
	$ 4,402,422	$ 6,716,284	$ 5,167,617	$ 6,564,336

16. Obligations under the CMB and IMPP programs securitization transactions

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

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Amount due within one year	**$ 259,612**	$ 979,159	$ 507,499	$ 1,603,436
Amount due after one year and within five years	**401,220**	499,955	316,942	611,284
	660,832	1,479,114	824,441	2,214,720
Accrued interest	**1,561**	6,752	2,264	8,025
Amortized cost	**$ 662,393**	$ 1,485,866	$ 826,705	$ 2,222,745
Fair value of total obligations under the CMB and IMPP programs	**$ 668,766**	$ 1,496,482	$ 831,762	$ 2,259,992

The underlying assets which relate to these obligations are as follows:

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Secured loans to members (Note 11)	**$ 80,396**	$ 406,476	$ 229,620	$ 561,511
Total reinvestment assets under the CMB and IMPP programs (Note 7)	**219,201**	880,893	306,914	1,652,244
Assets recognized as non-pledged trading assets and investment securities (Notes 6 & 10)	**368,735**	230,281	295,384	98,525
Total assets supporting the CMB and IMPP programs	**$ 668,332**	$ 1,517,650	$ 831,918	$ 2,312,280

17. Subordinated liabilities

The following table summarizes the amount of subordinated liabilities outstanding at each period end:

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Series 2	**$ 150,000**	$ 150,000	$ 150,000	$ 150,000
Series 3	**18,000**	18,000	18,000	18,000
Series 4	**200,000**	-	-	-
Principal amount	**368,000**	168,000	168,000	168,000
Accrued interest	**1,037**	968	1,139	859
	$ 369,037	$ 168,968	$ 169,139	$ 168,859

On October 9, 2009, Central 1 issued $150.0 million principal amount of 4.00% Series 2 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 note on October 9, 2014, subject to regulatory approval.

On July 6, 2011, Central 1 issued $18.0 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.

On April 25, 2014, Central 1 issued $200.0 million principal amount of 2.89% Series 4 notes due April 25, 2024. The notes bear interest at a fixed rate of 2.89% until, but excluding April 25, 2019, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 0.81%. Central 1 has the option to redeem the notes on April 25, 2019, subject to regulatory approval.

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

18. Other liabilities

(Thousands of dollars)

	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Settlements in-transit	**$ 503,549**	$ 393,348	$ 329,398	$ 424,167
Post-employment benefits	**22,073**	22,360	21,706	21,913
Short-term employee benefits	**5,117**	4,736	4,470	6,544
Dividends payable	**13,234**	6,257	13,978	3,034
Unearned insurance premiums	**758**	2,193	875	668
Trade amounts and other	**17,552**	15,893	16,716	14,748
	$ 562,283	$ 444,787	$ 387,143	$ 471,074

19. 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 six months ended June 30, 2014	For the six months ended June 30, 2013	For the year ended December 31, 2013
Class A – credit unions			
Balance at beginning of period	**307,141**	290,255	290,255
Issued for cash during the period	**8,820**	3,175	16,888
Redeemed during the period	**(54)**	(2)	(2)
Balance at end of period	**315,907**	293,428	307,141
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
Class E – credit unions			
Balance at beginning of period	**3,159**	3,159	3,159
Redeemed during the period	**(1)**	-	-
Balance at end of period	**3,158**	3,159	3,159

The amounts outstanding are as follows:

	(Thousands of dollars)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Outstanding $1 par value shares				
Class A – credit unions	**$ 315,907**	$ 293,428	$ 307,141	$ 290,255
Class B – cooperatives	**5**	5	5	5
Class C – other	**7**	7	7	7
Outstanding $0.01 par value shares				
Class E – credit unions	**32**	32	32	32
	$ 315,951	$ 293,472	$ 307,185	$ 290,299

20. Gain (loss) on disposal of financial instruments

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

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Net gain on disposal of trading assets	**$ 8,858**	$ 24,153	**$ 18,712**	$ 48,272
Net gain on disposal of investment securities	**9,796**	8,431	**18,971**	13,474
Net loss on disposal of derivatives	**(39,338)**	(12,735)	**(42,518)**	(33,786)
Net loss on disposal of deposits	**(568)**	(2,943)	**(1,304)**	(2,955)
	$ (21,252)	$ 16,906	**$ (6,139)**	$ 25,005

21. Change in fair value of financial instruments

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Trading assets	**$ (5,898)**	$ (54,816)	**$ 2,905**	$ (70,205)
Activities under the CMB and IMPP programs				
Reinvestment assets	**(181)**	(759)	**(402)**	(1,450)
Derivative assets and liabilities	**439**	(7,126)	**439**	(14,290)
Secured loans to members	**(121)**	(995)	**(377)**	(2,060)
Obligations to CHT and CMHC	**(51)**	16,503	**(1,472)**	26,631
Derivative assets and liabilities	**46,970**	32,391	**49,500**	61,474
Trading deposits	**(7,586)**	15,830	**(12,087)**	14,598
	$ 33,572	$ 1,028	**$ 38,506**	$ 14,698

22. Other income

(Thousands of dollars)

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Membership Dues	**$ 2,343**	$ 2,261	**$ 4,581**	$ 4,417
Provincial Advertising Assessment	**157**	401	**345**	855
Equity Interest in Affiliates	**2,295**	1,342	**3,416**	3,194
Insurance Premiums and Assessments	**1,604**	1,234	**2,851**	2,470
Technology and Payment Services				
- Processing fees	**11,683**	10,639	**22,194**	20,596
- Direct banking fees	**5,605**	5,480	**11,502**	11,246
Wholesale Financial Services				
- Treasury services	**67**	30	**144**	109
- Foreign exchange income	**1,919**	1,230	**3,581**	2,035
- Lending fees	**1,355**	1,228	**2,647**	2,608
- Employee benefits & retirement services	**315**	324	**641**	614
- Trust services	**554**	580	**1,107**	1,116
- Other	**431**	333	**468**	1,104
Trade and Other Services				
- Product compliance & design	**371**	391	**758**	807
- Property rents	**155**	128	**313**	373
- Risk management	**748**	846	**1,344**	1,445
- Marketing products & programs	**918**	1,388	**1,811**	1,902
- Research	**125**	147	**234**	272
- Other	**603**	601	**873**	844
	$ 31,248	$ 28,583	**$ 58,810**	$ 56,007

23. 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, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Provision for income taxes in the interim consolidated statements of profit	**$ 2,277**	$ 3,559	**$ 5,532**	$ 6,726
Income tax benefit related to dividends accrued and share redemptions	**(178)**	(601)	**(2,082)**	(1,042)
Total	**$ 2,099**	$ 2,958	**$ 3,450**	$ 5,684

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

	(Thousands of dollars)			
	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Current income taxes	**$ 3,826**	$ 1,294	**$ 7,732**	$ 4,498
Deferred income taxes (recovery)	**(1,549)**	2,265	**(2,200)**	2,228
Total	**$ 2,277**	$ 3,559	**$ 5,532**	$ 6,726

Central 1's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of **26.1 %** (2013 – 26.1%).

The federal 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 is being phased out over a five year period which began in 2013. The impact of the phasing out of the deduction will be mitigated to a large extent by the availability of a general rate reduction which Central 1 can apply to its active business income not benefitting from the credit union deduction.

During the first quarter of 2014 the Government of British Columbia announced that it will phase out the preferential tax treatment for B.C. credit unions beginning in 2016.

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
	%	%	**%**	%
Combined federal and provincial statutory income tax rates	**26.1**	26.1	**26.1**	26.1
Reduction available to credit unions	**(10.5)**	(11.3)	**(10.5)**	(11.3)
Impact of rate change on current tax	**-**	2.8	**-**	1.5
Change in estimated future tax rates on deferred tax balances	**-**	(5.1)	**(1.6)**	(2.6)
Other items	**(1.9)**	3.2	**(0.3)**	0.5
	13.7	15.7	**13.7**	14.2

24. Segment information

For management reporting purposes, Central 1's operations and activities are organized around three key business segments: Mandatory Reserve Pool ("MRP"), Wholesale Financial Services and Trade Services. Activities or transactions which do not relate directly to these three business segments are reported in "Other".

A description of each business segment is as follows:

Mandatory Reserve Pool

The MRP segment is responsible for providing extraordinary liquidity to the credit union system in the event of a liquidity crisis. The pool is funded by the mandatory deposits of member credit unions, either by liquidity lock-in agreement or by statute. Assets held in the pool remain highly liquid in order to ensure immediate access to funds. The net profits in the MRP business line are distributed to Class A members in the form of a dividend.

Wholesale Financial Services

The Wholesale Financial Services segment is comprised of the Excess Liquidity Pool ("ELP"), payment and settlement operations, direct banking and the group clearer function. The ELP supports the structural and tactical liquidity needs of member credit unions in pursuit of regular, day-to-day business objectives. The pool is funded by Class A members' non-mandatory deposits augmented by capital market funding and deposits from non-Class A members. Centralized liquidity and funding services are concerned with managing the ELP and fostering the system's growth, which involves lending funds to credit unions, accessing capital markets for short and long term funding, commercial loan syndications, and coordinating and administering securitization and other wholesale funding programs. Central 1 also provides foreign exchange services, derivative capabilities and other ancillary treasury services under the ELP. Payment and settlement operations encompass processing paper items and electronic transactions such as automated funds transfer ("AFT") and bill payments on behalf of member credit unions. Central 1 also provides other payment services, including domestic and foreign wire transfers and interac e-transfers under this segment. Direct banking services include online, mobile and phone banking, not only for member credit unions in British Columbia and Ontario but also for credit unions and other financial institutions across the country. Central 1 is a group clearer under the rules of the Canadian Payments Association ("CPA"), a Large Value Transfer System ("LVTS") participant, and acts as the credit union systems' financial institution connection to the Canadian payments system.

Trade Services

The Trade Services segment delivers operational support, strategic consulting and research services tailored to the needs of member credit unions. Among these services are strategic planning, research and analysis, insurance and risk management, project management and compensation advice.

Other

All other business level activities that are not allocated to these three business segments, including adjustments and other management reclassifications, corporate level tax items and residual unallocated revenue and expenses, are included in the "Other" segment. Any unallocated assets or liabilities are included in this business segment.

Management reporting framework

Central 1's management reporting framework is intended to measure the performance of each business segment as if it were a stand-alone business and reflects the way our business segments are managed. This approach is intended to ensure that our business segments' results reflect all relevant revenue and expenses associated with the conduct of their businesses. Management regularly monitors these segments' results for the purpose of making decisions about resource allocation and performance assessment. These items do not impact the consolidated results.

The expenses in each business segment may include costs or services directly incurred or provided on their behalf at the corporate level. For other costs not directly attributable to one of the business segments, a management reporting framework that uses assumptions, estimates and methodologies for allocating overhead costs and indirect expenses to our business segments and assist in the attribution of capital and the transfer pricing of funds to the business segments in a manner that fairly and consistently measures and aligns the economic costs with the underlying benefits and risks of that specific business segment. Central 1 does not have any inter-segment revenue between business segments. Income tax provision or recovery is generally applied to each segment based on a statutory tax rate and may be adjusted for items and activities unique to each segment. All other corporate level activities that are not allocated the three business segments are reported under the “Other” segment.

Results by segment

The following table summarizes the segment results for the three months ended June 30, 2014:

(Thousands of dollars)

	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Interest income	$ 25,064	$ 21,943	$ 60	$ 64	$ 47,131
Interest expense	22,361	16,575	(35)	1,398	40,299
Interest margin	2,703	5,368	95	(1,334)	6,832
Gain (loss) on disposal of financial instruments	(10,158)	(11,108)	14	-	(21,252)
Changes in fair value of financial instruments	10,113	23,458	1	-	33,572
Recovery for credit losses	-	186	-	-	186
Net financial income, including recovery for credit losses	2,658	17,904	110	(1,334)	19,338
Other income	270	18,027	5,955	6,996	31,248
Net financial and other income	2,928	35,931	6,065	5,662	50,586
Net operating expenses	1,902	17,449	7,087	7,204	33,642
Profit (loss) before income taxes	1,026	18,482	(1,022)	(1,542)	16,944
Income taxes (recoveries)	160	2,883	(159)	(607)	2,277
Profit (loss) for the period	$ 866	$ 15,599	$ (863)	$ (935)	$ 14,667

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The following table summarizes the segment results for the six months ended June 30, 2014:

(Thousands of dollars)

	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Interest income	$ 49,843	$ 45,909	$ 133	$ 119	$ 96,004
Interest expense	44,143	34,818	(75)	2,796	81,682
Interest margin	5,700	11,091	208	(2,677)	14,322
Gain (loss) on disposal of financial instruments	(3,730)	(2,426)	14	3	(6,139)
Changes in fair value of financial instruments	14,607	23,862	37	-	38,506
Recovery for credit losses	-	233	-	-	233
Net financial income, including recovery for credit losses	16,577	32,760	259	(2,674)	46,922
Other income	276	35,175	11,723	11,636	58,810
Net financial and other income	16,853	67,935	11,982	8,962	105,732
Net operating expenses	3,619	35,103	13,920	12,309	64,951
Profit (loss) before income taxes	13,234	32,832	(1,938)	(3,347)	40,781
Income taxes (recoveries)	2,064	5,122	(302)	(1,352)	5,532
Profit (loss) for the period	$ 11,170	$ 27,710	$ (1,636)	$ (1,995)	$ 35,249
Total assets at June 30, 2014	$ 6,800,603	$ 6,075,914	$ 21,264	$ 230,591	$ 13,128,372
Total liabilities at June 30, 2014	$ 6,387,233	$ 5,617,523	$ 1,484	$ 217,660	$ 12,223,900
Total equity attributable to members of Central 1	$ 413,370	$ 458,391	$ 9,903	$ 12,931	$ 894,595
Non-controlling interest	-	-	9,877	-	9,877
Total equity at June 30, 2014	$ 413,370	$ 458,391	$ 19,780	$ 12,931	$ 904,472

The accounting policies of the segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 2.

25. 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 joint venture 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)			
	June 30, 2014	June 30, 2013	December 31, 2013	January 1, 2013
Standby letters of credit	**$ 189,117**	$ 217,456	$ 184,743	$ 216,353
Commitments to extend credit	**$ 3,528,297**	$ 3,285,904	$ 3,312,499	$ 3,272,293

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.

26. 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 capital assets.

(Millions of dollars)	Fair Value		Carrying Value		Unrealized Gain (Loss)	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013	**June 30, 2014**	June 30, 2013
Assets						
Cash	**$ 118.53**	$ 62.77	**$ 118.53**	$ 62.77	**$ -**	$ -
Deposits with regulated financial institutions[1]	**6.41**	6.31	**5.64**	6.15	**0.77**	0.16
Investment securities[1]	**10,768.74**	9,728.17	**10,768.74**	9,728.17	**-**	-
Reinvestment assets under the CMB and IMPP programs	**219.20**	880.89	**219.20**	880.89	**-**	-
Derivative assets	**47.47**	31.05	**47.47**	31.05	**-**	-
Loans[2]	**990.43**	1,338.93	**990.33**	1,340.97	**0.10**	(2.04)
Secured loans to members	**80.40**	406.48	**80.40**	406.48	**-**	-
Other assets	**898.06**	605.20	**898.06**	605.20	**-**	-
Liabilities						
Deposits designated as trading	**4,691.26**	2,100.75	**4,691.26**	2,100.75	**-**	-
Derivative liabilities	**117.90**	165.95	**117.90**	165.95	**-**	-
Debt securities issued[1]	**1,322.05**	918.98	**1,319.90**	918.33	**(2.15)**	(0.65)
Deposits from members[1]	**4,420.44**	6,731.73	**4,402.42**	6,716.28	**(18.02)**	(15.45)
Obligations under the CMB and the IMPP programs	**668.77**	1,496.48	**668.77**	1,496.48	**-**	-
Subordinated liabilities[1]	**372.84**	172.78	**369.04**	168.97	**(3.80)**	(3.81)
Securities under repurchase agreements	**83.82**	218.24	**83.82**	218.24	**-**	-
Other liabilities	**570.79**	453.94	**570.79**	453.94	**-**	-
Total					**$ (23.10)**	$ (21.79)

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

27. 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 ("FICOM"). Pursuant to federal regulations, Central 1 is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20.0:1 or less.

In January 2014, FICOM confirmed requirements for Central 1 to maintain a federal borrowing multiple of no more than 16.0:1 for its MRP business line and no more than 14.0:1 for its ELP business line.

In order to ensure that Central 1 maintains regulatory capital sufficient to absorb sudden increases in borrowings or a reduction in capital due to mark-to-market fluctuations, Central 1 targets an operating borrowing multiple of 14.5:1 for its MRP business line to 12.0:1 for its ELP business line.

Provincial regulations in British Columbia, which apply to B.C. credit unions as well as to Central 1, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements ("BIS"). The provincial risk weightings generally parallel the methodology used by OSFI to regulate Canadian chartered banks. Provincial Legislation requires Central 1's risk-weighted capital, calculated by dividing capital by risk-weighted assets, to be no less than 8.0%. FICOM guidance requires Central 1's risk-weighted capital to be no less than 10.0%. Additionally, Central 1 must maintain a risk-weighted capital ratio of at least 10.0% to enable member B.C. credit unions to risk-weight their deposits with Central 1 at 0.0%.

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.

28. Related parties

Transactions with key management personnel

Key management personnel include Central 1's Executive Management and Vice-Presidents. Transactions between Central 1 and management personnel and their immediate relatives during the year are as follows:

	(Thousands of dollars) For the three months ended	
	June 30, 2014	June 30, 2013
Mortgage loans outstanding at end of period	**$ 1,161**	$ 1,373
Maximum mortgage loans outstanding during the period	**$ 1,185**	$ 1,389

Mortgage loans to key management personnel bear interest at rates ranging from 2.50% 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) For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Salaries and short-term employee benefits	**$ 1,109**	$ 1,378	**$ 1,754**	$ 2,064
Post-employment benefits	**50**	42	**108**	111
Termination benefits	**1,843**	-	**2,843**	2,833
	$ 3,002	$ 1,420	**$ 4,705**	$ 5,008

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

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 three months ended June 30, 2014, the members of Central 1's Board of directors received aggregate remuneration of **$219** thousand (June 30, 2013 - $198 thousand) and for the six months ended June 30, 2014 of **$341** thousand (June 30, 2013 - $400 thousand).

Significant Subsidiaries

	(% ownership of common shares outstanding)		
	June 30, 2014	June 30, 2013	December 31, 2013
Central 1 Trust Company	**100%**	100%	100%
Central Risk and Insurance Management Services Ltd.	**100%**	100%	100%
CUPP Services Ltd.	**100%**	100%	100%
Stabilization Fund Corporation	**100%**	100%	100%

CUPP Services Ltd. ("CUPP"), 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, with the remainder issued to holders of the Non-Controlling Interest of CUPP.

The net assets of Stabilization Fund Corporation ("SFC") are retained for use by Central 1's member credit unions in Ontario, and as such, SFC 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)		
	June 30, 2014	June 30, 2013	December 31, 2013
Credential Financial Inc.	**40%**	40%	40%
Credit Union Central of Canada ("CUCC")	**51%**	51%	50%
CUMIS Group Limited	**27%**	27%	27%