Second Quarter Report 2016
Report to Members

Central 1

Central 1 Reports Results for the Second Quarter of 2016

Second quarter highlights compared to the same period last year:

- Central 1's profit for the period is $13.4 million, compared to $14.8 million a year earlier.
- Central 1's return on average equity is 5.3 per cent, compared to 6.3 per cent a year earlier.
- Central 1's assets are $15.7 billion, compared to $14.1 billion a year earlier.
- Central 1's Tier 1 capital ratio is 33.6 per cent, compared to 37.6 per cent a year earlier.
- B.C. system's net operating income is $81.3 million, compared to $71.1 million a year earlier.
- B.C. system's assets are $69.8 billion, compared to $64.3 billion a year earlier.
- Ontario system's net operating income is $52.2 million, compared to $42.3 million a year earlier.
- Ontario system's assets are $42.4 billion, compared to $38.1 billion a year earlier.

Central 1 recorded a profit of $13.4 million for the quarter ended June 30, 2016, compared to $14.8 million for the same period in 2015. Net financial income increased $2.6 million compared with the same period last year driven by a $8.1 million increase in interest margin, partially offset by a $5.5 million decrease in net realized and unrealized gains. While other income increased $1.2 million, operating expenses increased $5.1 million from 2015 to support a number of corporate initiatives. Assets increased $1.7 billion from a year ago driven by deposit growth in the B.C. and Ontario credit union systems. Central 1 was in compliance with all regulatory capital requirements throughout the second quarter of 2016.

The B.C. system earned $81.3 million before taxes, dividends, patronage refunds and extraordinary items in the second quarter of 2016, an increase of $10.2 million or 14.3 per cent from the same period in 2015. Net interest income in the quarter increased $11.8 million over the previous year driven by loan growth. Non-interest expense increased $2.3 million over the same period last year, while non-interest income increased $0.7 million over the same period last year. Combined assets of the B.C. system rose 8.6 per cent year-over-year to reach $69.8 billion.

The Ontario system earned $52.2 million before taxes, dividends, patronage refunds and extraordinary items in the second quarter of 2016, an increase of $9.9 million or 23.4 per cent from the same period in 2015. Net interest income increased $14.5 million over the same period last year driven by loan growth. Non-interest expenses increased $23.1 million year-over-year, while non-interest income increased $18.5 million. Combined assets of the Ontario system rose 11.2 per cent year-over-year to reach $42.4 billion at the end of the quarter.

Central 1, along with other organizations that support the credit union system, will need to adapt to the changing landscape.

Since the first quarter, Central 1 has engaged in a process of consultation with credit unions to explore potential options for the future state of the system. Central 1 released a discussion paper ("Supporting Credit Union Success") during the first quarter, and during the second quarter held a series of consultations with our members to understand their perspective on what an ideal future state would look like.

We have heard clearly from our members that the status quo is not an option, and during the second quarter and into the third quarter, have undergone analysis on what the costs and benefits of different options would be, and how an ideal future state could be operationalized.

This analysis work will help form the backbone of the next discussion paper. Central 1 also continues to have productive discussions with other centrals about how we can increase efficiencies to reduce costs, duplication and overlap in services, and provide the best experience to our members.

Management's Discussion & Analysis

Table of Contents

Management's Discussion and Analysis for the period ended June 30, 2016

This portion of the report updates Central 1 Credit Union's (Central 1) Management's Discussion and Analysis (MD&A) for the year ended December 31, 2015, and reviews and analyzes the financial condition and results of operations of Central 1 for the six-month period ended June 30, 2016, compared to the corresponding period in the prior fiscal year. The financial information included in this MD&A should be read in conjunction with Central 1's unaudited Interim Consolidated Financial Statements for the six-month period ended June 30, 2016 as well as Central 1's 2015 Annual Report for the year ended December 31, 2015. This MD&A is as at August 26, 2016.

The results presented in this MD&A and in the Interim Consolidated Financial Statements that follow are reported in Canadian dollars. Except as otherwise indicated, financial information for Central 1 included in this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 2 of the Interim Consolidated Financial Statements. Additional information on Central 1 may be found on SEDAR's website at www.sedar.com.

This MD&A also includes financial information about the credit union systems in British Columbia and Ontario. The British Columbia credit union system is made up of all credit unions in British Columbia while the Ontario credit union system is made up of only those credit unions that have contracted to become members of Central 1. In the discussions presented in this report, the two provincial systems are individually referred to as the "British Columbia (B.C.) credit union system" or "B.C. system" and the "Ontario credit union system" or "Ontario system". Where the term "system" appears without regional designation, it refers to Central 1's total membership, encompassing credit unions in both provinces.

Financial information for the B.C. system has been provided by the Financial Institutions Commission of British Columbia (FICOM), the provincial credit union regulator. Financial information for the Ontario system has been provided by the Deposit Insurance Corporation of Ontario (DICO). The differing provincial regulatory guidelines reduce the comparability of the information between the two provincial systems. Central 1 has no means of verifying the accuracy of information provided by credit unions to FICOM or DICO or the subsequent compilation of that information by FICOM or DICO. This information is provided purely to assist the reader with understanding Central 1's results and should be read in the proper context.

Financial information provided by B.C. credit unions to FICOM and by Ontario credit unions to DICO has been prepared using reporting templates developed by FICOM and DICO, respectively. The format and accounting principles used to complete these templates are not fully consistent with IFRS. The net operating income of the B.C. and Ontario credit union systems reported herein is not equivalent to income from continuing operations as would be reported under IFRS.

Legislative reviews in both British Columbia and Ontario continued in the second quarter. The B.C. Ministry of Finance released a summary of its initial public consultation on a review of the *B.C. Financial Institutions Act* and *Credit Union Incorporation Act*, and the Ontario Ministry of Finance announced its planned changes with respect to the scheduled five-year review of the *Credit Unions and Caisses Populaires Act, 1994*. Both initiatives may impact the B.C. and Ontario credit union systems.

Central 1, in conjunction with the provincial centrals in Alberta, Saskatchewan and Manitoba and Credit Union Central of Canada (CUCC), has submitted a proposal to the Credit Union Prudential Supervisors Association to restructure the Group Clearer function performed by Central 1. This may result in changes to the way that credit unions perform payments and clearing functions in the future.

In January 2016, CUCC continued its transition to become the national trade association for credit unions. CUCC has been restructured and its trade association assets and liabilities have been transferred to the Canadian Credit Union Association (CCUA). CUCC's remaining assets and liabilities are now held by 189286 Canada Inc. Central 1 has discontinued its use of the equity method accounting for its former interest in the trade association functions of CUCC due to the change in its influence over CCUA.

On December 18, 2014, Central 1 entered into a Memorandum of Understanding (MOU) with Credit Union Central of Saskatchewan and Concentra Financial Services Association. The purpose of the MOU was to explore the potential for the parties to consolidate wholesale financial and trust business lines, with the aim of forming a national wholesale finance and trust provider with greater capabilities and capacities to serve the system. The MOU expired at the end of June 2016.

Cautionary Note Regarding Forward-Looking Statements

From time to time, Central 1 makes written forward-looking statements, including in this MD&A, 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", "will", "may", "should", "could", or "would" and similar expressions.

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 to not 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 business and operations, compliance, credit and counterparty, insurance, liquidity, market, and operational 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 and Risk Discussion sections of Central 1's 2015 Annual Report.

Economic Developments and Outlook

The following summaries of the economic environment, the state of financial markets and performance by both provincial systems in the second quarter of 2016 offer a context for interpreting Central 1's quarterly results and provide insight into its future performance.

The Economic Environment

The global economy remained in slow growth mode in the second quarter, determined for the most part by the big economies of the United States (U.S.), the Eurozone and China. In the U.S., real GDP growth in the second quarter is estimated at 1.2 per cent annualized, up from 0.8 per cent in the first quarter. Personal consumption drove second quarter growth while private sector investment declined. Real GDP growth is forecast at 2.1 per cent for 2016, down slightly from 2.4 per cent in 2015.

In the Eurozone, real GDP growth in the second quarter is estimated at 1.5 per cent annualized, on par with 1.6 per cent in the first quarter. Consumption spending and net exports increased while investment spending declined. Looking ahead, the United Kingdom's (U.K.) vote to leave the European Union (EU) is expected to lower GDP growth by 0.2 per cent per year, with a greater negative impact on the U.K. itself. Real GDP growth is forecast at 1.4 per cent in 2016, down from 2.0 per cent in 2015.

In China, real GDP growth in the second quarter is estimated at 6.3 per cent annualized, on par with 6.4 per cent growth in the first quarter. Growth in domestic production was broad-based, while net exports were a slight drag. Real GDP growth is forecast at 6.6 per cent in 2016, down slightly from 6.9 per cent in 2015.

In Canada, real GDP growth is estimated at zero in the second quarter, down from 0.6 per cent annualized in the first quarter. Wildfires in Alberta's oil sands caused a partial but temporary shutdown of production and an evacuation of Fort McMurray, which the Bank of Canada (BOC) estimates lowered GDP by 1.25 per cent. While the wildfires were the dominant economic story of the quarter, all sectors of the domestic economy recorded growth in the second quarter except fixed investment which continued to decline due to low energy and base metal prices. Real GDP growth is forecast at 1.6 per cent in 2016, up from 1.1 per cent in 2015.

Financial Markets

The U.K.'s non-binding referendum on its membership in the EU marked an abrupt change to an otherwise quieter, less volatile quarter. The immediate financial response was fierce as five year U.S. Treasury yields fell 30 basis points (bps), the VIX spiked 50.0 per cent, Sterling fell over 11.0 per cent and equity futures fell 6.0 per cent as many market participants were caught wrong-footed heading into the vote. While it is too early to fully understand the implications and knock-on effects of the "Brexit" vote, the market initial reaction was subsequently moderated as the surprise of the result has transitioned into a more measured consideration of the longer-term implications.

The BOC held its overnight rate constant over the quarter, striking a generally balanced tone despite negative headwinds appearing in recent economic data from the Alberta wildfires. The Federal Reserve (Fed) also struck a balanced tone at its meetings over the quarter as the pace of job growth slowed and market's expectations of inflationary pressures continued to fall. The Bank of Japan and the European Central Bank continued to administer negative overnight rates; however, both BOC and Fed officials gave speeches over the quarter highlighting some apprehensions about moving to negative rates even if economic data surprised to the downside.

Credit spreads were generally flat over the quarter as Canadian new issuance volumes were down compared to last year with more issuance activity being observed in the U.S. and European fixed income markets.

System Performance

British Columbia

Net operating income for the second quarter was $81.3 million, compared to $71.1 million in the second quarter of 2015. Net interest income increased $11.8 million over the same period last year driven by loan growth. Non-interest income increased $0.7 million, led by trading income. Non-interest expenses increased $2.3 million year-over-year, led by $4.6 million increase in salary and employee benefit expense and $3.3 million increase in other expenses, offset by a decline in loan loss expense of $5.6 million.

Total assets increased 8.6 per cent year-over-year to reach $69.8 billion at the end of the second quarter. Asset growth was led by residential mortgages which increased 7.2 per cent. Other increases included liquid assets, commercial mortgages and securitized assets, which increased 13.6 per cent, 6.9 per cent and 43.4 per cent, respectively. Liability growth was led by non-registered demand deposits which increased 12.7 per cent, while non-registered term deposits were up 4.8 per cent and borrowings increased 36.0 per cent.

The B.C. system's rate of loan delinquencies over 90 days was 0.28 per cent of total loans at the end of June, down eight bps year-over-year. Provision for credit losses as a percentage of loans was 0.29 per cent, down three bps. The system's loan loss expense ratio was 0.05 per cent annualized in the second quarter, down from 0.10 per cent in the second quarter last year.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 14.6 per cent at the end of June, a slight decrease from 14.9 per cent a year ago. Aggregate liquidity of B.C. credit unions, including that held by Central 1, was 15.1 per cent of deposit and debt liabilities, up from 14.5 per cent a year ago.

Ontario

Net operating income for the second quarter was $52.2 million, compared to $42.3 million in the second quarter of 2015. Non-interest income increased $18.5 million and net interest income increased $14.5 million over the same period last year driven by loan growth. Non-interest expenses increased $23.1 million year-over-year, led by salary and employee benefit expense.

Total assets increased 11.2 per cent year-over-year to reach $42.4 billion at the end of the second quarter. Asset growth was led by residential mortgages and commercial mortgages and loans, which increased 11.0 per cent and 12.6 per cent, respectively. Liability growth was led by non-registered demand deposits, up 16.5 per cent, and borrowings, mostly secured, up 22.0 per cent.

The Ontario system's rate of loan delinquencies over 90 days was 0.37 per cent of total loans at the end of June, down 14 bps year-over-year. Provision for credit losses as a percentage of loans was 0.27 per cent, down four bps. The system's loan loss expense ratio was 0.03 per cent annualized in the second quarter, unchanged from the second quarter last year.

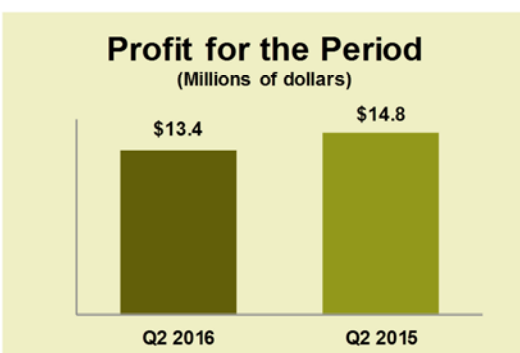
The Ontario system's regulatory capital as a percentage of risk-weighted assets was 13.5 per cent at the end of June, up from 12.5 per cent a year ago (Class 2 credit unions only). Aggregate liquidity of Ontario credit unions, including that held by Central 1, was 11.2 per cent of deposit and debt liabilities, up from 10.7 per cent a year ago.

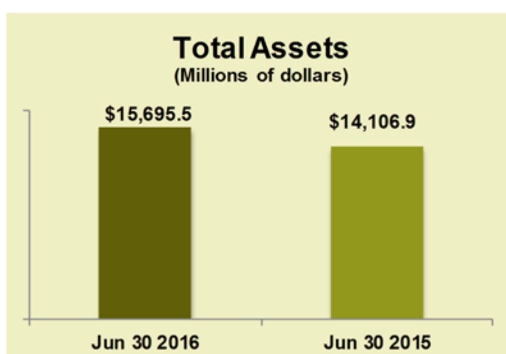
Overall Performance

The following table summarizes Central 1's Financial Overview as at June 30, 2016 with comparative.

Figure 1 – Financial Overview

	For the three months ended		
	Jun 30 2016	Jun 30 2015	Change
Earnings *(Millions of dollars)*			
Net financial income	**$ 15.8**	$ 13.2	$ 2.6
Net financial and other income	**$ 54.0**	$ 50.3	$ 3.7
Profit for the period	**$ 13.4**	$ 14.8	$ (1.4)
Earnings per Share *(cents)*			
Basic	**3.6**	4.3	(0.7)
Diluted	**3.6**	4.3	(0.7)
Return on			
Average assets	**0.4%**	0.4%	0.0%
Average equity	**5.3%**	6.3%	(1.0%)
Statement of Financial Position Data *(Millions of dollars)*			
Total assets	**$ 15,695.5**	$ 14,106.9	$ 1,588.6
Average assets	**$ 14,999.9**	$ 13,351.8	$ 1,648.1
Long-term financial liabilities	**$ 5,948.8**	$ 5,148.4	$ 800.4
Weighted average shares outstanding	**$ 375.8**	$ 339.2	$ 36.6
Regulatory Capital Ratios			
Tier 1 capital ratio	**33.6%**	37.6%	(4.0%)
Provincial capital ratio	**43.0%**	49.3%	(6.3%)
Borrowing multiple (times)	**13.6**	13.1	0.5
Share Information			
Outstanding $1 par value shares *(Thousands of dollars)*			
Class A - credit unions	**$ 384,952**	$ 349,952	$ 35,000
Class B - cooperatives	**$ 5**	$ 5	$ -
Class C - other	**$ 7**	$ 7	$ -
Outstanding $0.01 par value shares with redemption value of $100 *(Thousands of dollars)*			
Class E - credit unions	**$ 32**	$ 32	$ -
Dividends per share *(cents)*			
Class A	**0.50**	0.43	0.07
Class B & C	**0.24**	0.27	(0.03)
Class E	**-**	-	-
Productivity Ratio %	**70.5%**	65.5%	5.0%
Productivity Ratio % - Non-Financial	**99.3%**	88.9%	10.4%





Statement of Financial Position

Cash and Liquid Assets

The following tables summarize Central 1's Cash and Liquid Assets for the Mandatory Liquidity Pool (MLP) and Wholesale Financial Services (WFS) as at June 30, 2016 with comparatives.

Figure 2 – Cash and Liquid Assets

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities received as collateral	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
						Jun 30 2016
Cash	$ 80.7	$ -	$ -	$ -	$ -	$ -
Federal and provincial government issued and guaranteed securities	6,584.4	2,908.2	304.4	3,212.6	1,209.7	2,002.9
Corporate and financial institutions AA or greater	775.1	1,481.0	115.2	1,596.2	124.2	1,472.0
U.S. dollar denominated corporate and financial institution securities AA or greater	117.3	448.7	-	448.7	-	448.7
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	247.1	-	247.1	-	247.1
Other assets	-	473.0	-	473.0	103.6	369.4
Total	$ 7,557.5	$ 5,558.0	$ 419.6	$ 5,977.6	$ 1,437.5	$ 4,540.1

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities received as collateral	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
						Jun 30 2015
Cash	$ -	$ 83.7	$ -	$ 83.7	$ -	$ 83.7
Federal and provincial government issued and guaranteed securities*	6,156.4	1,824.2	408.8	2,233.0	1,175.1	1,057.9
Corporate and financial institutions AA or greater	509.0	1,777.8	20.1	1,797.9	23.0	1,774.9
U.S. dollar denominated corporate and financial institution securities AA or greater	351.2	389.9	-	389.9	-	389.9
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	222.4	-	222.4	-	222.4
Other assets	65.0	461.3	-	461.3	-	461.3
Total	$ 7,081.6	$ 4,759.3	$ 428.9	$ 5,188.2	$ 1,198.1	$ 3,990.1

* This quarter previously excluded reinvestment assets in WFS

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities received as collateral	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
						Dec 31 2015
Cash	$ 283.7	$ -	$ -	$ -	$ -	$ -
Federal and provincial government issued and guaranteed securities	6,135.6	2,270.8	55.9	2,326.7	1,279.2	1,047.5
Corporate and financial institutions AA or greater	708.8	2,088.6	100.8	2,189.4	107.3	2,082.1
U.S. dollar denominated corporate and financial institution securities AA or greater	268.6	389.6	-	389.6	-	389.6
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	207.9	-	207.9	-	207.9
Other assets	-	541.0	-	541.0	-	541.0
Total	$ 7,396.7	$ 5,497.9	$ 156.7	$ 5,654.6	$ 1,386.5	$ 4,268.1

Cash and liquid assets increased $0.5 billion and $0.8 billion year-over-year in MLP and WFS, respectively, funded by higher deposits and obligations under the Canada Mortgage Bond (CMB) Program, partially offset by lower debt securities outstanding. Cash and liquid assets in MLP and WFS represent 48.2 per cent and 35.4 per cent, respectively, of Central 1's total assets. Compared to the prior year, the weighting of cash and liquid assets in MLP relative to Central 1's total assets has decreased 2.0 per cent due to the impact of higher growth in WFS, offset by a 1.7 per cent increase in WFS.

Loans

The following table summarizes Central 1's Loans as at June 30, 2016 with comparatives.

Figure 3 – Loans

(Millions of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Loans to credit unions	**$ 655.7**	$ 470.5	$ 784.1
Syndicated commercial loans	**620.7**	229.2	518.7
Non syndicated commercial loans	**15.2**	24.7	16.0
Other loans	**9.1**	10.0	9.4
Residential mortgages	**130.3**	12.0	98.0
	775.3	275.9	642.1
Securities acquired under reverse repurchase agreements	**307.4**	392.4	48.9
	$ 1,738.4	$ 1,138.8	$ 1,475.1

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

Total loans increased $599.6 million compared to a year ago, driven by higher syndicated commercial loans, credit union loans, and residential mortgages. Syndicated commercial loans increased $391.5 million largely due to a large commercial lending transaction in the fourth quarter of 2015. Commercial loans represented 36.6 per cent of Central 1's total loan portfolio, up 14.3 per cent from a year ago. Securities acquired under reverse repurchase agreements, generally used to support Central 1's credit union members' participation in the CMB Program, decreased $85.0 million.

Borrowings

The following table summarizes Central 1's Borrowings as at June 30, 2016 with comparatives.

Figure 4 – Borrowings

(Millions of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Deposits and trading liabilities by type			
Mandatory deposits	**$ 7,058.8**	$ 6,726.5	$ 6,904.2
Non-mandatory deposits	**3,302.9**	2,237.6	3,244.8
Deposits from member credit unions	**10,361.7**	8,964.1	10,149.0
Deposits from non-credit unions	**772.9**	691.2	601.7
	11,134.6	9,655.3	10,750.7
Accrued interest	**44.1**	44.4	46.1
	11,178.7	9,699.7	10,796.8
Debt securities issued at amortized cost			
Commercial paper issued	**658.0**	674.5	476.0
Medium-term notes issued	**600.0**	600.0	600.0
	1,258.0	1,274.5	1,076.0
Accrued interest and discount	**0.0**	(2.1)	(0.7)
	1,258.0	1,272.4	1,075.3
Obligations under the CMB Program	**1,138.2**	845.5	988.9
Accrued interest	**1.3**	1.8	0.7
	1,139.5	847.3	989.6
Securities under repurchase agreements	**120.6**	256.8	221.1
Accrued interest	**0.1**	0.1	0.1
	120.7	256.9	221.2
	$ 13,696.9	$ 12,076.3	$ 13,082.9

Borrowings increased $1.6 billion or 13.4 per cent year-over-year. Credit union mandatory deposits grew $0.3 billion over the year, reflective of the growth within both the B.C. and the Ontario credit union systems during the same period. Non-mandatory deposits from credit unions increased $1.1 billion from the same period last year. The increase in non-mandatory deposits is reflective of the increased liquidity reported within the B.C. and Ontario credit union systems. Deposits from member credit unions represented 75.7 per cent of Central 1 total borrowing portfolio at year end, up from 74.2 per cent last year.

Details of these balances can be found in Note 10 of the Interim Consolidated Financial Statements.

Equity

Central 1's equity increased $67.3 million from a year ago to $1.0 billion. Class A share capital increased $35.0 million. The remaining increase was driven by higher retained earnings, of which some of the increase had been previously recognized in accumulated other comprehensive income (AOCI).

Statement of Profit

Net Financial Income

The following table summarizes Central 1's Net Financial Income for the three and six months ended June 30, 2016.

Figure 5 – Net Financial Income

	For the three months ended		For the six months ended	
(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015
Interest margin	**$ 12,498**	$ 4,429	**$ 22,911**	$ 9,424
Net realized and unrealized gains	**3,261**	8,816	**4,240**	19,524
Net financial income	**$ 15,759**	$ 13,245	**$ 27,151**	$ 28,948

Q2 2016 vs Q2 2015

Net financial income for the second quarter of 2016 increased $2.5 million compared to the second quarter of 2015. The increase was driven by an increase in interest margin partially offset by a decrease in net realized and unrealized gains. Interest margin increased $8.1 million driven primarily by a lower weighed average cost of funds. Interest margin was also aided by a higher allocation of assets to commercial loans during the second quarter.

In aggregate, net realized and unrealized gains decreased $5.6 million. Unrealized gains declined $3.4 million year-over-year due to narrower swap spreads on derivatives, while realized gains declined $2.2 million due to lower income on disposal of available-for-sale assets, for which changes in fair value in prior periods were recognized in AOCI.

YTD 2016 vs YTD 2015

Net financial income for the first six months of 2016 decreased $1.8 million compared to the first six months of 2015. The decrease was driven by a decrease in net realized and unrealized gains partially offset by an increase in interest margin.

Interest margin increased $13.5 million driven primarily by a lower weighted average cost of funds and aided by an increased allocation of assets to commercial loans. Interest expense has declined over the past year in part due to a shift in the composition of liabilities as deposits from credit unions form a larger portion of Central 1's financial liabilities than a year ago.

In aggregate, net realized and unrealized gains decreased $15.3 million. Unrealized gains declined $7.8 million year-over-year due to narrower swap spreads on derivatives, while realized gains declined $7.5 million due to lower income on disposal of available-for-sale assets, for which changes in fair value in prior periods were recognized in AOCI.

Other Income and Operating Expenses

The following table summarizes Central 1's Other Income and Operating Expenses for the six months ended June 30, 2016 with comparatives.

Figure 6 – Other Income and Operating Expenses

(Millions of dollars)	For the three months ended Jun 30 2016	For the three months ended Jun 30 2015	For the six months ended Jun 30 2016	For the six months ended Jun 30 2015
Other income				
Digital & Payment Services				
Payment processing and other fees	**$ 13.2**	$ 12.7	**$ 25.4**	$ 24.2
Direct banking fees	**7.8**	7.5	**14.7**	14.4
Treasury related services	**5.0**	4.1	**9.4**	7.9
Membership dues and provincial advertising assessment	**3.2**	3.2	**6.4**	6.3
Trade and other services	**2.4**	3.1	**4.2**	5.5
Equity interest in affiliates	**2.4**	2.5	**5.2**	2.9
Income from investees	**3.6**	3.3	**4.1**	3.3
Insurance premiums and assessments	**0.7**	0.7	**1.2**	1.2
Total other income	**38.3**	37.1	**70.6**	65.7
Operating expenses				
Salaries and employee benefits	**19.8**	17.2	**38.8**	34.2
Premises and equipment	**1.7**	1.7	**3.4**	3.3
Other administrative expenses	**16.6**	14.1	**30.1**	26.2
Total operating expenses	**38.1**	33.0	**72.3**	63.7
Operating income (loss)	**$ 0.2**	$ 4.1	**$ (1.7)**	$ 2.0

Q2 2016 vs Q2 2015

Other income during the second quarter of 2016 increased $1.2 million or 3.2 per cent from prior year.

Digital & Payment Services' revenues increased $0.8 million mainly from stronger transaction volumes in electronic payments.

Increased foreign exchange income, securitization services fee income together with increased standby and lending fees has driven a $0.9 million increase in treasury related services revenue. Decreases occurred in trade and other services, mainly driven by the transfer out of the pension and retirement services.

Operating expenses increased $5.1 million or 15.5 per cent from the same period in the prior year. Excluding a $0.5 million one-time restructuring charge, salaries and employee benefits expense increased $2.1 million to support the completion of certain initiatives together with a market based wages increase. Central 1 engages contractor resources, under fixed term contractual arrangements, to assist in completing corporate and strategic initiatives. Over the past year, the use of contractor resources has increased to complete time-sensitive projects.

Other administrative expenses increased $2.5 million, primarily due to higher professional fees. The implementation of Central 1's new multi-phase treasury management system, and other initiatives, has resulted in an increase in management information system expenses.

YTD 2016 vs YTD 2015

Other income during the first six months of 2016 increased $4.9 million or 7.5 per cent from a year ago. The discontinuation of the use of equity method accounting for Central 1's interest in CUCC's trade association functions resulted in a recovery of $1.6 million during the first quarter of 2016 which was included in equity interest in affiliates.

Digital & Payment Services' revenues increased $1.5 million mainly from stronger transaction volumes in electronic payments partially offset by a decrease in paper payment volumes. Over the past few years, credit unions across the country have worked to implement Central 1's Branch Remote Deposit Capture (BRDC) technology which allows for credit unions to convert paper-based payments items to electronic images for exchange with other financial institutions. As credit unions have completed their implementations, they have experienced cost savings and the volume of paper items processed by Central 1 has declined. This will result in a decline in revenues and expenses for Central 1 in the future, but the completion of the BRDC initiative will have a positive impact on credit union bottom lines.

Increased foreign exchange income, securitization services fee income together with increased standby and lending fees have driven a $1.5 million increase in treasury related services revenue. Decreases occurred in trade and other services, mainly driven by the transfer out of the pension and retirement services. Excluding the one-time impact from CUCC restructuring, equity interest from affiliates increased $0.7 million during the current period resulting from improved financial performance of the affiliated entities.

Operating expenses increased $8.6 million or 13.5 per cent from prior year. Excluding a $1.2 million one-time restructuring charge, salaries and employee benefits expense increased $3.4 million. Central 1's permanent staff complement has increased over the past year to support increased revenues as well as a number of corporate and support initiatives. Central 1 has also increased its use of contractor resources to complete initiatives geared towards improving efficiency and effectiveness.

Other administrative expenses increased $3.9 million, primarily due to higher professional fees. The completion of the second phase of Central 1's multi-phase treasury management system implementation resulted in increased costs related to support Central 1's management information systems.

Summary of Quarterly Results

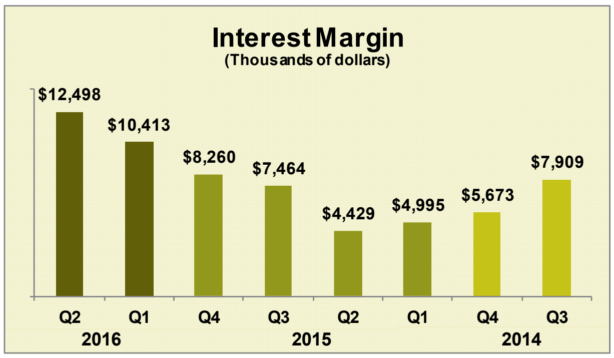
Quarterly Results

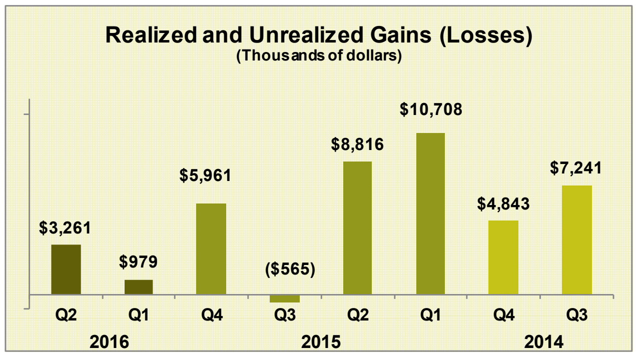
The following table summarizes Central 1's Quarterly Earnings for each of the last eight quarters.

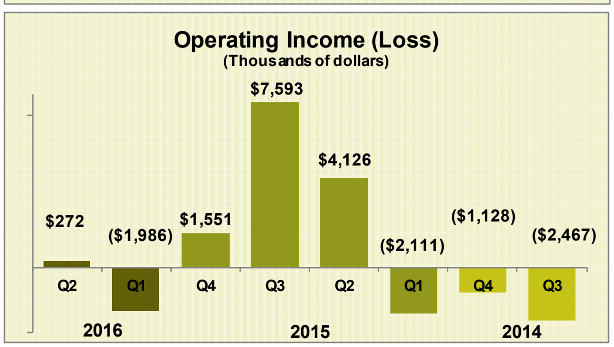
Figure 7 – Quarterly Earnings

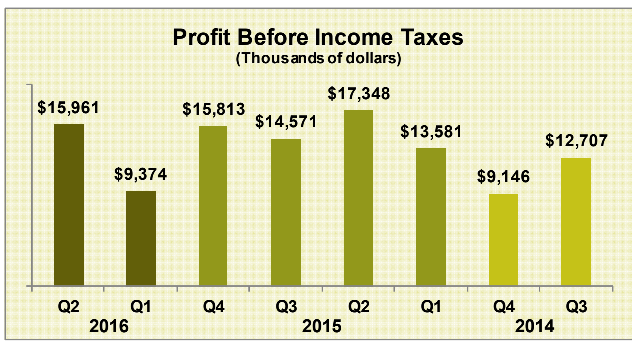
	2016		2015				2014	
(Thousands of dollars, except as indicated)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total interest income	$ **49,975**	$ 48,059	$ 47,355	$ 45,580	$ 41,559	$ 43,709	$ 46,453	$ 51,114
Total interest expense	**37,477**	37,646	39,095	38,116	37,130	38,714	40,780	43,205
Interest margin	**12,498**	10,413	8,260	7,464	4,429	4,995	5,673	7,909
Realized and unrealized gains (losses)	**3,261**	979	5,961	(565)	8,816	10,708	4,843	7,241
Recovery (provision) of credit losses	**(70)**	(32)	41	79	(23)	(11)	(242)	24
	15,689	11,360	14,262	6,978	13,222	15,692	10,274	15,174
Other income	**38,333**	32,274	34,832	40,160	37,099	28,615	32,906	28,029
Operating expenses	**(38,061)**	(34,260)	(33,281)	(32,567)	(32,973)	(30,726)	(34,034)	(30,496)
Operating income (loss)	**272**	(1,986)	1,551	7,593	4,126	(2,111)	(1,128)	(2,467)
Profit before income taxes	**15,961**	9,374	15,813	14,571	17,348	13,581	9,146	12,707
Income taxes	**(2,592)**	(882)	(2,318)	(1,845)	(2,597)	(2,203)	(1,388)	(2,124)
Profit for the period	$ **13,369**	$ 8,492	$ 13,495	$ 12,726	$ 14,751	$ 11,378	$ 7,758	$ 10,583
Weighted average shares outstanding *(millions)*	**375.8**	371.0	357.3	350.0	339.2	333.1	325.0	316.0
Earnings per share								
Basic *(cents)*	**3.6**	2.3	3.8	3.6	4.3	3.4	2.4	3.3
Diluted *(cents)*	**3.6**	2.3	3.8	3.6	4.3	3.4	2.4	3.3

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









Central 1's interest margin has increased over recent quarters, reflective of asset growth, an increased allocation of assets to lending and securitization activities, and a shift in the composition of liabilities, partially offset by the BOC rate reduction in the third quarter of 2015. Previous quarters reflected a reduction in interest margin due to lower lending to member credit unions and the lower interest rate environment arising from the BOC rate reduction in the first quarter of 2015.

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

Results by Segment

Central 1's operations and activities are organized around four key business segments: MLP, WFS, Digital & Payment Services and Trade Services. Activities or transactions which do not relate directly to these four business segments, for example income from affiliates and income from property management services in B.C., are reported in "Other".

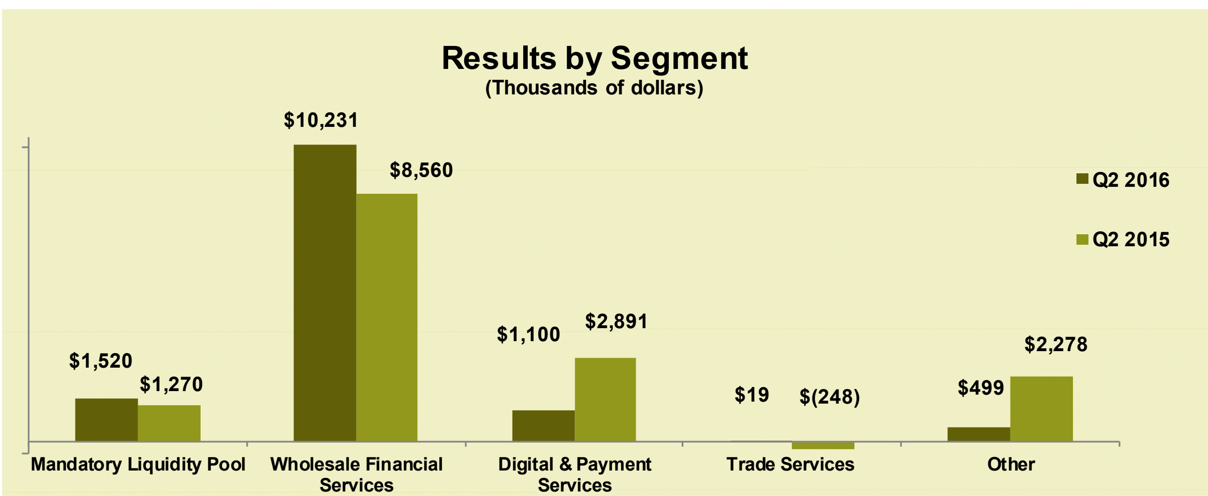
Q2 2016 vs Q2 2015

The following tables summarize Central 1's Results by Segment for the three months ended June 30, 2016 with comparative.

Figure 8 – Results by Segment

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the three months ended June 30, 2016
Net financial income (expense), including provision for credit losses	$ 3,785	$ 12,861	$ (55)	$ 84	$ (986)	$ 15,689
Other income	(2)	4,492	20,996	4,675	8,172	38,333
Net financial and other income	3,783	17,353	20,941	4,759	7,186	54,022
Operating expenses	1,919	4,808	19,592	4,735	7,007	38,061
Profit (loss) before income taxes	1,864	12,545	1,349	24	179	15,961
Income taxes (recoveries)	344	2,314	249	5	(320)	2,592
Profit (loss) for the period	$ 1,520	$ 10,231	$ 1,100	$ 19	$ 499	$ 13,369

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the three months ended June 30, 2015
Net financial income (expense), including provision for credit losses	$ 3,286	$ 10,983	$ (64)	$ 46	$ (1,029)	$ 13,222
Other income	35	3,663	20,184	4,926	8,291	37,099
Net financial and other income	3,321	14,646	20,120	4,972	7,262	50,321
Operating expenses	1,801	4,231	16,662	5,323	4,956	32,973
Profit (loss) before income taxes	1,520	10,415	3,458	(351)	2,306	17,348
Income taxes (recoveries)	250	1,855	567	(103)	28	2,597
Profit (loss) for the period	$ 1,270	$ 8,560	$ 2,891	$ (248)	$ 2,278	$ 14,751



Mandatory Liquidity Pool

MLP reported a profit of $1.5 million, an increase of $0.3 million compared to the second quarter of 2015, driven by a $0.5 million increase in net financial income. Realized and unrealized gains decreased $0.2 million due to lower net gains on trading securities and funding recorded at fair value. Interest margin increased $0.7 million as a result of an increase in interest-earning net assets. Operating expenses increased $0.1 million driven by increased information technology charges arising from the implementation of a new treasury management system.

Wholesale Financial Services

WFS reported a profit of $10.2 million, an increase of $1.7 million compared to the second quarter of 2015, driven by an increase of $1.9 million in net financial income. Interest margin increased $7.3 million driven by an increase in interest-earning net assets and a lower cost of funds. Realized and unrealized gains decreased $5.4 million driven by lower net gains on disposal of available-for-sale assets recognized in net financial income.

WFS' other income increased $0.8 million driven by higher securitization fees, commercial lending fees, and standby lending fees, and foreign exchange income. Operating expenses increased $0.6 million driven by increased information technology charges.

Digital & Payment Services

Digital & Payment Services' profit decreased by $1.8 million from the second quarter of 2015. This reflects a decline in Payment Processing profit of $0.6 million and a decline in Direct Banking profit of $0.8 million. The decrease in Payment Processing income was primarily attributable to increased expenses, while the decline in Direct Banking was due to a combination of lower revenues and increased expenses.

Trade Services

Trade Services reported a break-even compared to a loss of $0.2 million from the second quarter of 2015, with most of the increase being recorded by the Marketing area.

Other

Other operating segment's profit decreased $1.8 million from the second quarter of 2015. Operating expenses increased $2.0 million driven by increased salaries and employee benefits expense in support of a number of corporate and support initiatives.

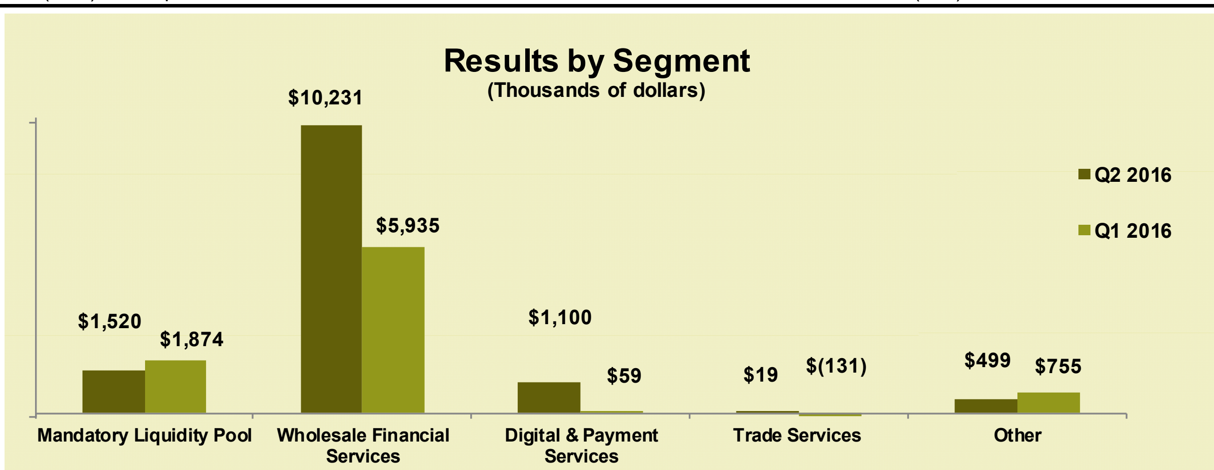
Q2 2016 vs Q1 2016

The following tables summarize Central 1's Results by Segment for the three months ended June 30, 2016 compared with the three months ended March 31, 2016.

Figure 9 – Results by Segment

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the three months ended June 30, 2016
Net financial income (expense), including provision for credit losses	$ 3,785	$ 12,861	$ (55)	$ 84	$ (986)	$ 15,689
Other income	(2)	4,492	20,996	4,675	8,172	38,333
Net financial and other income	3,783	17,353	20,941	4,759	7,186	54,022
Operating expenses	1,919	4,808	19,592	4,735	7,007	38,061
Profit (loss) before income taxes	1,864	12,545	1,349	24	179	15,961
Income taxes (recoveries)	344	2,314	249	5	(320)	2,592
Profit (loss) for the period	$ 1,520	$ 10,231	$ 1,100	$ 19	$ 499	$ 13,369

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the three months ended March 31, 2016
Net financial income (expense), including provision for credit losses	$ 4,354	$ 8,037	$ (53)	$ 68	$ (1,046)	$ 11,360
Other income	(187)	4,075	19,150	3,800	5,436	32,274
Net financial and other income	4,167	12,112	19,097	3,868	4,390	43,634
Operating expenses	1,869	4,831	19,025	4,029	4,506	34,260
Profit (loss) before income taxes	2,298	7,281	72	(161)	(116)	9,374
Income taxes (recoveries)	424	1,346	13	(30)	(871)	882
Profit (loss) for the period	$ 1,874	$ 5,935	$ 59	$ (131)	$ 755	$ 8,492



Mandatory Liquidity Pool

MLP's profit decreased $0.4 million compared to the first quarter of 2016. The decrease was driven by a $0.6 million decrease in net financial income. Realized and unrealized losses increased $1.1 million due to lower net gains on disposal of available-for-sale assets recognized in net financial income. Interest margin increased $0.5 million due to an increase in interest-earning assets. Operating expenses were higher than the first quarter of 2016 due to increased information technology charges arising from the implementation of a new treasury management system.

Wholesale Financial Services

WFS' profit increased $4.3 million compared to the first quarter of 2016. The increase is driven by an increase of $4.8 million in net financial income. Realized and unrealized gains increased $3.3 million driven by higher net gains on interest-earning assets. Interest margin increased $1.5 million driven by higher commercial lending balances throughout the quarter and an increase in interest-earning net assets.

WFS' other income increased $0.4 million due to higher foreign exchange income and securitization fees partially offset by a decreases in commercial and credit union lending fees.

Digital & Payment Services

Digital & Payment Services' profit increased $1.0 million from the first quarter of 2016. Other income increased by $1.8 million, with increases across all product lines. This was partially offset by an increase in operating expenses resulting from higher project expenditures.

Trade Services

Trade Services reported a break-even compared to a loss of $0.2 million in the first quarter of 2016. The performance of dues funded departments was relatively consistent, while Marketing saw an improvement of $0.2 million to its bottom-line.

Other

Other operating segment reported profit of $0.5 million, decreased $0.3 million from the first quarter of 2016. Excluding the one-time impact from CUCC restructuring in the first quarter of 2016, other income increased $4.4 million largely due to an increase in income from affiliates.

Operating expenses increased $2.5 million during the second quarter, driven by the $1.7 million flow-through patronage dividend, together with increased salaries and benefits expenses and professional fees in support of a number of corporate and support initiatives.

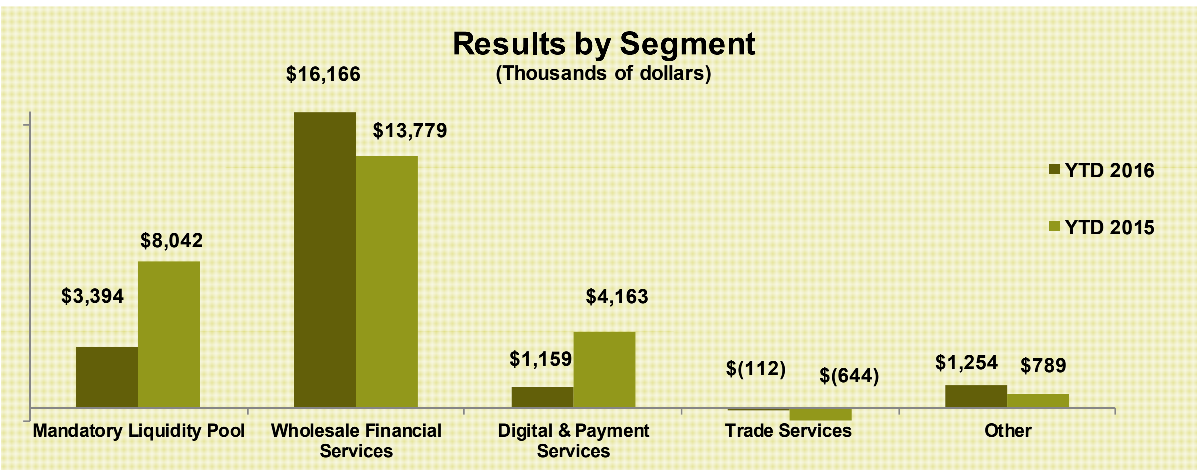
YTD 2016 vs YTD 2015

The following table summarizes Central 1's Results by Segment for the six months ended June 30, 2016 with comparative.

Figure 10 – Results by Segment

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the six months ended June 30, 2016
Net financial income (expense), including provision for credit losses	$ 8,139	$ 20,898	$ (108)	$ 152	$ (2,032)	$ 27,049
Other income	(189)	8,567	40,146	8,475	13,608	70,607
Net financial and other income	7,950	29,465	40,038	8,627	11,576	97,656
Operating expenses	3,788	9,639	38,617	8,764	11,513	72,321
Profit (loss) before income taxes	4,162	19,826	1,421	(137)	63	25,335
Income taxes (recoveries)	768	3,660	262	(25)	(1,191)	3,474
Profit (loss) for the period	$ 3,394	$ 16,166	$ 1,159	$ (112)	$ 1,254	$ 21,861

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the six months ended June 30, 2015
Net financial income (expense), including provision for credit losses	$ 13,371	$ 17,624	$ (133)	$ 155	$ (2,103)	$ 28,914
Other income	(187)	7,127	38,577	8,492	11,705	65,714
Net financial and other income	13,184	24,751	38,444	8,647	9,602	94,628
Operating expenses	3,565	8,271	33,465	9,524	8,874	63,699
Profit (loss) before income taxes	9,619	16,480	4,979	(877)	728	30,929
Income taxes (recoveries)	1,577	2,701	816	(233)	(61)	4,800
Profit (loss) for the period	$ 8,042	$ 13,779	$ 4,163	$ (644)	$ 789	$ 26,129



Mandatory Liquidity Pool

MLP reported a profit of $3.4 million, a decrease of $4.6 million compared to the first six months of 2015. The decrease is driven by a $5.2 million decrease in net financial income. Realized and unrealized gains decreased $4.9 million due to lower net gains on trading assets and funding recorded at fair value, and lower net gains on disposal of available-for-sale securities recognized in net financial income. Interest margin decreased $0.3 million reflecting lower rates earned on high quality liquid securities compared to rates paid on mandatory deposits partially offset by a 3.7 per cent increase in interest-earning net assets. Operating expenses increased $0.2 million due to increased information technology charges.

Wholesale Financial Services

WFS reported a profit of $16.2 million, an increase of $2.4 million compared to the first six months of 2015. The increase is driven by an increase of $3.3 million in net financial income. Interest margin increased $13.7 million driven by a 48.4 per cent increase in interest-earning net assets and higher commercial and credit union lending volumes. Realized and unrealized gains decreased $10.4 million driven by lower net gains on interest-earning assets and lower net gains on disposal of available-for-sale assets recognized in net financial income.

WFS’ other income increased $1.4 million driven by higher securitization fees, commercial lending fees, and standby lending fees. Operating expenses increased $1.4 million driven by increased information technology charges.

Digital & Payment Services

Digital & Payment Services’ profit decreased by $3.0 million from the first six months of 2015. This reflects a decline in Payment Processing profit of $1.0 million and a decline in Direct Banking profit of $1.9 million. The decrease in Payment Processing income was primarily attributable to increased expenses, while the decline in Direct Banking was due to a combination of lower revenues and increased expenses..

Trade Services

Trade Services reported a $0.1 million loss compared to a loss of $0.6 million from the six months ended June 2015.

Other

Other operating segment reported a profit of $1.3 million, an increase of $0.5 million from the first six months of 2015. During the period, a credit to income of $1.6 million was recorded due to the CUCC restructuring, which was largely offset by a restructuring charge of $1.2 million.

Statement of Cash Flows

Central 1’s cash at the end of the quarter increased $51.6 million from a year ago. Significant changes in balance sheet values that impact cash flows include investment securities which decreased together with an increase in cash inflows from financing activities, partially offset by an increase in trading assets.

These changes should be seen in context of Central 1’s role as a liquidity provider whose assets are primarily cash and liquid securities.

Off-Balance Sheet Arrangements

In the normal course of business, Central 1 enters into off-balance sheet arrangements, which fall into the following main categories: derivative financial instruments, guarantees and commitments, and assets under administration.

Derivative Financial Instruments

The following table summarizes the notional off-balance sheet derivative financial instruments as at June 30, 2016 with comparatives.

Figure 11 – Derivative Financial Instruments

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Notional Amount Dec 31 2015
Interest rate contracts			
Bond forwards	**$ 166,000**	$ -	$ 83,600
Futures contracts	**283,750**	75,000	205,000
Swap contracts	**28,325,888**	26,801,452	26,090,340
Options purchased	**-**	100,000	-
Options written	**-**	100,000	-
	28,775,638	27,076,452	26,378,940
Foreign exchange contracts			
Foreign exchange forward contracts	**181,448**	198,109	269,368
Other derivative contracts			
Equity index-linked options	**264,466**	328,667	278,873
	$ 29,221,552	$ 27,603,228	$ 26,927,181

* The table discloses derivative notional amounts w hile the Interim Consolidated Statements of Financial Position records derivatives at fair value.

Central 1 acts as a swap intermediary between Canada Housing Trust and member credit unions and additionally provides derivative capabilities to member credit unions to be used in the asset/liability management of their respective balance sheets. These activities represented $9.0 billion and $15.8 billion, respectively, of the total derivative notional balances as at June 30, 2016.

Counterparty credit risk arising from derivative contracts is managed within the context of Central 1's overall credit risk policies and through the existence of Credit Support Annex (CSA) agreements in place with all non-credit union derivatives counterparties. Under a CSA, net fair value positions are collateralized with high-quality liquid securities. Central 1's credit exposure to its credit union counterparties is secured by the general security arrangements with each credit union.

The fair value of derivative positions is presented in Note 5 to the Interim Consolidated Financial Statements.

Guarantees and Commitments

The table below presents the maximum amount of credit that Central 1 could be required to extend if commitments were to be fully utilized, and the maximum amount of guarantees that could be in effect if the maximum authorized amount were transacted.

Figure 12 – Guarantees and Commitments

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Commitments to extend credit	**$ 4,302,980**	$ 3,955,146	$ 3,857,075
Guarantees	**$ 822,000**	$ 499,000	$ 687,000
Standby letters of credit	**$ 155,358**	$ 141,295	$ 145,392
Mortgage purchase commitment	**$ 19,861**	$ -	$ 16,066

In the normal course of business, Central 1 enters into various off-balance sheet credit instruments to meet the financing, credit and liquidity requirements of its member credit unions. These are in the form of commitments to extend credit, standby commitments, and guarantees.

Commitments to extend credit increased $347.8 million from a year ago driven by increased lending to member credit unions. Guarantees and standby letters of credit increased $323.0 million and $14.1 million, respectively, due to growth in the B.C. and Ontario credit union system.

Guarantees are provided to enable member credit unions to enter transactions with counterparties without the need to have that counterparty individually assess the credit worthiness of each individual institution, and are also managed in accordance with risk policies.

Assets under Administration

The following table summarizes Assets under Administration (AUA) as at June 30, 2016 with comparatives.

Figure 13 – Assets under Administration

(Thousands of dollars)		Jun 30 2016		Jun 30 2015		Dec 31 2015
Registered Retirement Savings Plans	**$**	**1,589,676**	$	1,647,921	$	1,581,874
Tax-Free Savings Accounts		**693,617**		596,642		630,167
Registered Retirement Income Funds/Life Income Funds		**359,636**		354,438		362,875
Registered Education Savings Plans		**200,680**		181,035		187,005
Registered Disability Savings Plans		**14,040**		9,292		11,128
	$	**2,857,649**	$	2,789,328	$	2,773,049

AUA mainly include government approved registered plans for tax deferral purposes, which are administered by Central 1 or one of its wholly owned subsidiaries. Central 1 provides trust and administrative services for the members of the B.C. credit union system, and the subsidiary provides the same services for members in the Ontario and Manitoba credit union systems. These assets are owned by members of Central 1's member credit unions.

As at June 30, 2016, AUA totaled $2.9 billion, up $0.1 billion or 2.4 per cent from a year ago. The increase was mainly due an increase in the Tax-Free Savings Accounts reflective of the increased business from Ontario credit unions, partially offset by a decrease in the Registered Retirement Savings Plans driven by market movement and transferring out to Registered Retirement Income Fund. Registered Education Savings Plans also increased due to the introduction of the B.C. Training and Education Savings Grant.

Capital Management and Capital Resources

Central 1 manages capital to maintain strong capital ratios in support of the risks and activities of the organization while generating an appropriate rate of return for its members. In addition to the regulatory requirements, Central 1 considers the expectation of credit rating agencies, credit union system growth and internal capital ratios. The longer term strategic goal is to optimize the capital usage and structure through the use of an economic capital model to provide a better return for the capital invested by the members.

Capital Management Framework

Central 1's capital management framework provides the policies and processes for defining, measuring, and allocating capital across the organization. It defines the roles and responsibilities in assessing capital adequacy, dividends and management of regulatory capital requirements.

A key component to capital management is the annual capital planning process that involves different functional areas within Central 1, including Finance, Risk, and the payments and clearing functions. Capital planning has two key integrated components, the annual budget process in setting targets for the organization, and the Internal Capital Adequacy Assessment Process in determining the required amount of capital to cover material risks to which the organization is exposed. The capital planning process includes forecasting growth in assets, earnings and projected market conditions. These components are updated and monitored regularly during the year.

Central 1's share capital, with the exception of nominal amounts, is entirely held by its Class A members, which, collectively, is comprised of B.C. and Ontario credit unions. Class A shares are held by member credit unions in proportion to their asset size. Central 1's policy requires an annual rebalancing of Class A share capital subscriptions so that member credit unions maintain Class A share capital in proportion to their assets.

Central 1's rules permit it to unconditionally require its Class A members to increase their investment in its share capital. Class A share calls are routinely scheduled each May and November to support the MLP. Under the terms of the Capital Policy, Central 1’s Class A members are required to subscribe to additional Class A shares on a semi-annual basis to ensure that Central 1’s MLP borrowing multiple meets regulatory requirements. As Class A members contribute the funding and capital, net earnings in the MLP are to be distributed to Central 1’s Class A members as dividends on their Class A shares.

As announced in 2015, the Office of the Superintendent Financial Institutions (OSFI) will cease its supervision of provincial credit union centrals on January 15, 2017. As a result, OSFI will cease the duplicate regulation and supervision of centrals whose members are not “predominately federal credit unions.”

Regulatory Capital

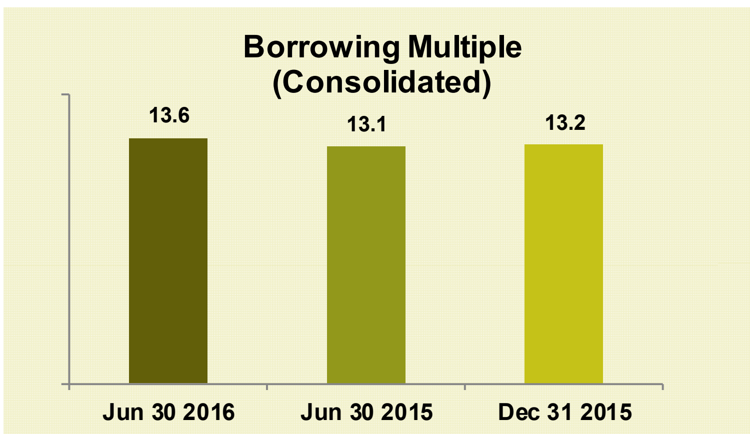
As of June 30, 2016, Central 1’s Tier 1 regulatory capital was $993.6 million and total capital before deductions was $1,216.3 million. In determining regulatory capital, adjustments are required to amounts reflected in Central 1’s Consolidated Statements of Financial Position. Deductions from capital are required for certain investments, including Central 1’s substantial investments in affiliated cooperative organizations. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

Following the quarter end, Central 1 received regulatory approval and exercised the option to fully redeem $18.0 million of Tier 2 qualifying subordinated debt on July 6, 2016. This redemption was replaced by $21.0 million of new Tier 2 qualifying subordinated debt.

The following table summarizes Central 1's Capital Position as at June 30, 2016 with comparatives.

Figure 14 – Capital Position

(Millions of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Share capital	**$ 385.0**	$ 350.0	$ 371.0
Contributed surplus	**87.9**	87.9	87.9
Retained earnings	**525.4**	484.8	507.0
Less: accumulated net after tax gain in investment property	**(4.7)**	(4.0)	(4.6)
Tier 1 capital	**993.6**	918.7	961.3
Subordinated debt	**218.0**	218.0	218.0
Add: accumulated net after tax gain in investment property	**4.7**	4.0	4.6
Tier 2 capital	**222.7**	222.0	222.6
Total capital	**1,216.3**	1,140.7	1,183.9
Statutory capital adjustments	**(170.0)**	(164.7)	(162.2)
Capital base (federal)	**$ 1,046.3**	$ 976.0	$ 1,021.7
Borrowing multiple - consolidated	**13.6:1**	13.1:1	13.2:1
Borrowing multiple - Mandatory Liquidity Pool	**15.1:1**	15.6:1	15.3:1
Borrowing multiple - Wholesale Financial Services	**12.5:1**	10.9:1	12.9:1



A year-on-year comparison and previous year end of Central 1's capital adequacy, measured under both provincial and federal regulations are provided above. Central 1 was in compliance with all regulatory capital requirements during this period.

At the end of June 30, 2016, Central 1's consolidated borrowing multiple of 13.6:1 is slightly higher than both one year ago and at year end, respectively, due to increases in deposits. Central 1's capital plan objective manages the MLP's borrowing multiple through semi-annual capital calls from its membership, and manages the WFS's borrowing multiple through growth in retained earnings. Central 1's capital plan also allows for tactical capital allocations within all segments excluding MLP.

Note 21 to Central 1's Interim Consolidated Financial Statements provides further details of capital management.

Risk Discussion

This section of the MD&A should be read in conjunction with the Risk Discussion section of Central 1's 2015 Annual Report.

Central 1 manages risk and performs risk oversight based on a comprehensive risk governance framework, including risk management policies that establish frameworks, processes and a comprehensive risk appetite framework and statement for all of Central 1's risk activities and oversight operations.

Central 1 recognizes that reputation is among its most important assets, and actively seeks to maintain a positive reputation both for itself and for the credit union system. The potential for a deterioration of stakeholders' trust in the organization (i.e. a negative impact on Central 1's reputation) arises from a number of outcomes dealt with under the identified risk categories below. These potential impacts include revenue loss, litigation, and regulatory action.

Central 1's risk management framework assesses and monitors reputational threats and impacts that arise from its business activities. Central 1 continues to develop approaches for improving the assessment, measurement, and monitoring of reputation impact.

Compliance Risk

Central 1 is exposed to Compliance Risk in all areas of the organization, ranging from legislative and regulatory requirements enforced as a result of the products and services offered by the various business lines, or through the oversight and regulatory reporting obligations placed upon corporate control and support functions. Compliance Risk is managed by a framework that is in place to ensure that Central 1 continues to meet the requirements of:

- The law, to uphold its reputation and that of the credit union system;
- Government regulators, to be allowed to continue to do business;
- Financial system counterparties, to be able to provide products and services to the credit union system; and
- Internal policies and procedures, to help ensure a strong and efficient governance structure.

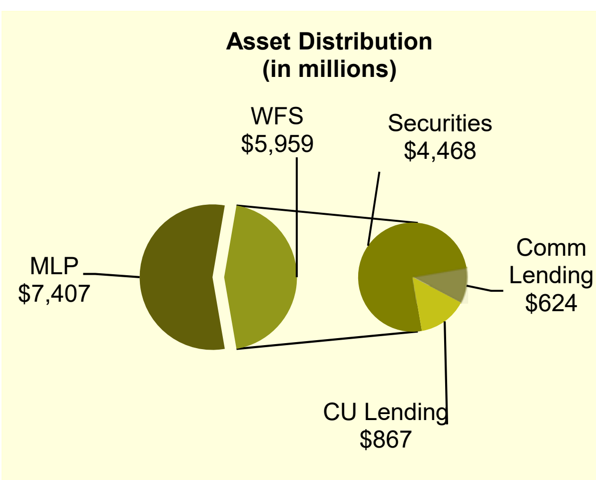
During the second quarter, there were no regulatory or legislative compliance issues.

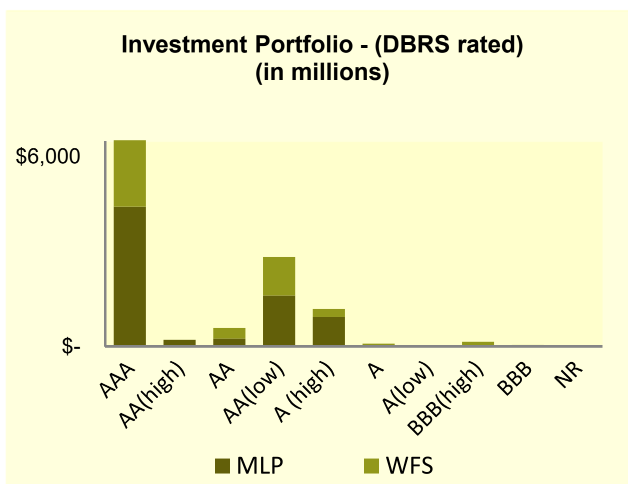
Credit and Counterparty Risk

Credit and Counterparty Risk continues to be assessed by management as low with a positive outlook.

The charts below illustrate Central 1's credit exposure and risk profile based on outstanding balances in the investment portfolios held in the MLP and WFS.

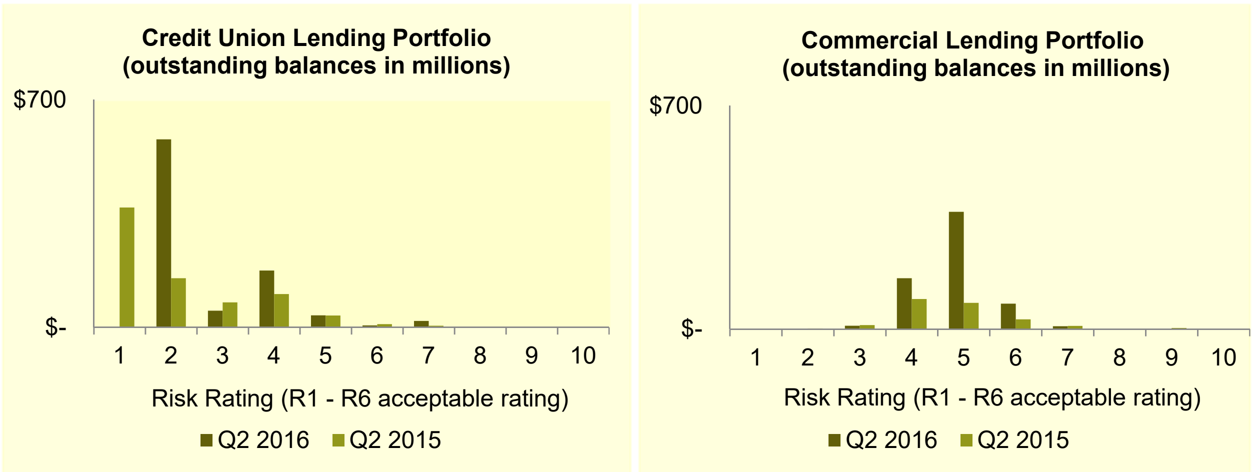
Figure 15 – Credit Exposure by Portfolio and Rating





The charts below provide Central 1's quarter end balances in the Credit Union Lending and Commercial Lending Portfolios.

Figure 16 – Portfolio Balances by Risk Rating



Currently, there is one impaired loan facility in the Commercial Lending portfolio. This loan was identified as impaired in April 2016. Given the security value provides sufficient coverage for Central 1's exposure, no provisions have been taken as no loss is expected. While there are no impaired facilities in the Credit Union Lending portfolio, a number of credit unions have been placed on the Watch List. To date, there is one B.C. and six Ontario credit unions classified as Watch List. There have been no changes in the quarter.

As part of its ongoing risk management activities, Central 1 performs ongoing stress tests to measure the resiliency of its credit portfolios against a range of severe scenarios. During the quarter, the stress tests provided comfort that Central 1 continues to maintain adequate capital to withstand a range of severe economic scenarios.

Liquidity Risk

Central 1 has implemented a number of liquidity risk measure improvements during the quarter with enhanced reporting. Central 1's and its members' liquidity position continues to be strong.

The Liquidity Coverage Ratio demonstrates Central 1's ability to meet 30-day cash-flow requirements under stressed conditions. The stress scenario assumes a run-off of deposits, no access to capital markets funding and that only Standing Liquidity Facility eligible assets, which includes a slightly broader range of issuers than is defined in Basel III guidance, can be sold to raise cash subject to a haircut of their market value.

Further information with respect to the composition of Central 1's liquid asset position can be found in Figure 2 of this MD&A.

The following table presents Central 1's view of its liquidity coverage for MLP and WFS.

Figure 17 – Liquidity Coverage Ratio

	Mandatory Liquidity Pool		Wholesale Financial Services	
	Q2 2016	Q1 2016	Q2 2016	Q1 2016
Liquidity coverage ratio	**104%**	104%	**116%**	133%

Market Risk

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.

Central 1's Corporate Risk Management Policy currently defines VaR exposure limits in relation to changes in portfolio value. The current limits are $10.5 million for MLP and $14.0 million for WFS. Central 1 remained within all of its market risk limits during the quarter.

The following tables summarize Central 1's VaR at June 30, 2016 with comparatives.

Figure 18 – VaR by Risk Type

Mandatory Liquidity Pool	Q2 2016				Q1 2016			
(Millions of dollars)	Jun 30	Average	High	Low	Mar 31	Average	High	Low
Interest Rate VaR	**$ 4.3**	**$ 4.6**	**$ 5.6**	**$ 1.9**	$ 4.3	$ 3.4	$ 4.5	$ 2.5
Credit Spread VaR	**2.8**	**2.6**	**3.0**	**2.2**	2.5	2.6	2.9	1.0
Foreign Exchange VaR	**0.0**	**0.1**	**1.5**	**0.0**	0.0	0.1	1.1	0.0
Diversification [(1)]	**(2.6)**	**(2.9)**	**nm**	**nm**	(2.9)	(2.6)	nm	nm
Total VaR	**$ 4.5**	**$ 4.4**	**$ 5.1**	**$ 3.6**	$ 3.9	$ 3.5	$ 4.2	$ 2.7

Wholesale Financial Services	Q2 2016				Q1 2016			
(Millions of dollars)	Jun 30	Average	High	Low	Mar 31	Average	High	Low
Interest Rate VaR	**$ 1.9**	**$ 2.4**	**$ 3.2**	**$ 1.9**	$ 2.2	$ 3.1	$ 3.9	$ 2.2
Credit Spread VaR	**2.2**	**2.5**	**2.7**	**2.1**	2.7	2.1	2.8	0.5
Foreign Exchange VaR	**1.5**	**1.6**	**1.9**	**1.2**	1.5	1.4	2.0	0.9
Diversification [(1)]	**(3.2)**	**(3.6)**	**nm**	**nm**	(3.5)	(3.1)	nm	nm
Total VaR	**$ 2.4**	**$ 2.9**	**$ 3.5**	**$ 2.4**	$ 2.9	$ 3.5	$ 4.2	$ 2.9

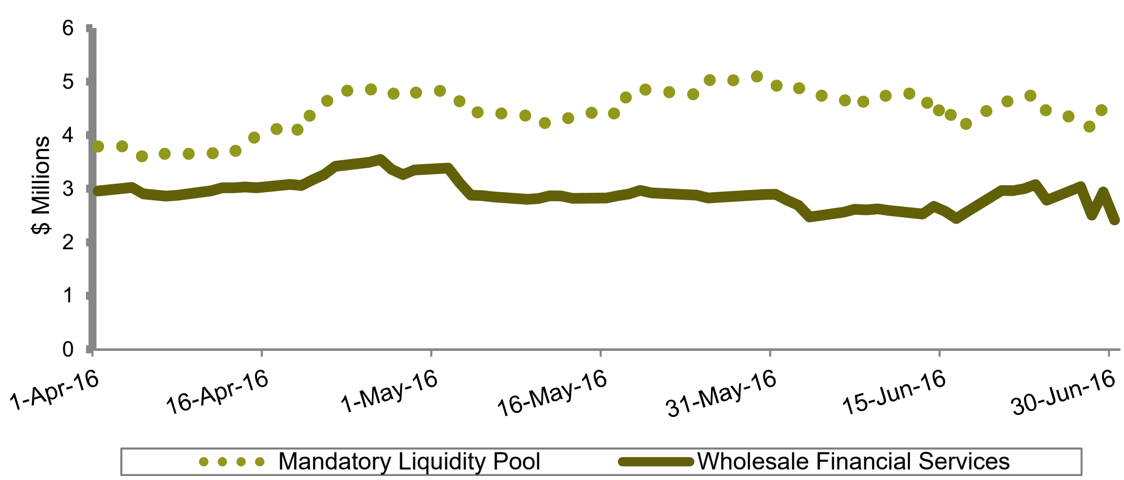
[(1)] Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.

nm - It is not meaningful to calculate diversification for the high and low because they may occur on different days for different risk factors.

Central 1 will not incur market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill its primary mandate of safeguarding system liquidity. At quarter end, VaR on MLP was higher than the VaR on WFS. This is driven by larger securities and fixed rate deposit balances within the MLP segment.

Using a 99 per cent confidence level, the one-day change in portfolio value is expected to be less than the exposure limit 99 per cent of the time. While there is day to day volatility in VaR measures (see figure below), Central 1 currently manages its market risk at levels well below approved policy limits.

Figure 19 – Daily 99% VaR by Business Line



Operational Risk

During the last quarter, Central 1 was within its risk expectations and tolerance.

In the last quarter, Central 1 upgraded its emergency mass notification system to improve the ability to manage disruption events. In addition, Central 1 is making this system available to the credit union system.

Central 1 continues to experience increasing exposure to electronic/technological risk and has implemented real-time intrusion detection monitoring of its remote banking applications and uses an external agency to continuously monitor security performance. As a result, Central 1 continues to invest in the infrastructure to successfully defend against a variety of cyber attacks on behalf of member credit unions, reducing their exposure and the risk of significant negative effects.

Strategic Risk

Central 1 believes that the current environment is characterized by pressures on all financial institutions from, among other things, tight margins and Fintech disruption and specifically for Central 1 as several consolidation initiatives are being explored. However, Central 1 undertakes a continuous strategic planning process, engages with its members on an ongoing basis and, as a result, ensures that it chooses and effectively pursues a strategy that reduces the risk inherent in the environment and delivers value for its member credit unions.

Accounting and Control Matters

Critical Accounting Policies and Estimates

A summary of significant accounting policies can be found in Note 3 to Central 1's audited 2015 Annual Consolidated Financial Statements, together with a discussion of critical accounting estimates and assumptions that affect the application of accounting policies and reporting amounts of assets, liabilities, income and expenses. Management is required to make subjective or complex estimates and judgements in certain significant areas of these financial statements.

Future Changes in Accounting Policies

The International Accounting Standards Board has issued new standards on financial instruments, revenues from contracts with customers, and leases. These new standards will be applicable to Central 1 in the future. Central 1 is not able to determine the impact of these standards on its financial statements at this time. Additional information can be found in Note 3 to the audited 2015 Annual Consolidated Financial Statements.

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 MD&A, 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 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, 2016. 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 MD&A.

Related Party Disclosures

In the normal course of business, Central 1 grants loans to its key management personnel under the same terms as those offered to any other employees. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Central 1, which include Central 1's Executive Management and Vice-Presidents. Details of Central 1's related party disclosures were disclosed in Note 22 of the Interim Consolidated Financial Statements.

Proposed Transaction

On December 18, 2014, Central 1 entered into a MOU with Credit Union Central of Saskatchewan and Concentra Financial Services Association. The purpose of the MOU was to explore the potential for the parties to consolidate wholesale financial and trust business lines, with the aim of forming a national wholesale finance and trust provider with greater capabilities and capacities to serve the system. The MOU expired at the end of June 2016.

Interim Consolidated Financial Statements

For the Quarter Ended June 30, 2016

Central 1

Table of Contents

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Financial Position (Unaudited)

(Thousands of dollars)	Notes	Jun 30 2016	Jun 30 2015	Dec 31 2015
Assets				
Cash		**$ 135,246**	$ 83,659	$ 106,834
Deposits with regulated financial institutions		**80,834**	6,048	6,104
Trading assets	4	**8,145,052**	5,818,867	6,765,557
Reinvestment assets under the Canada Mortgage Bond Program	4	**245,211**	100,801	165,146
Derivative assets	5	**113,705**	94,908	116,631
Loans	6	**1,756,844**	1,138,984	1,490,839
Investment securities	4	**4,644,388**	5,938,269	5,680,158
Current tax assets		**-**	-	397
Property and equipment		**18,051**	17,568	18,807
Intangible assets		**24,204**	16,263	19,897
Deferred tax assets		**16,537**	14,417	11,924
Investment in affiliates		**126,808**	122,491	125,767
Other assets	7	**388,573**	754,600	440,957
		$ 15,695,453	$ 14,106,875	$ 14,949,018
Liabilities				
Deposits designated as trading	8	**$ 7,844,033**	$ 6,382,840	$ 7,546,745
Obligations related to securities sold short	9	**-**	205,059	29,415
Derivative liabilities	5	**123,622**	126,934	130,805
Debt securities issued	10	**1,258,033**	1,272,433	1,075,344
Deposits	8	**3,334,688**	3,316,870	3,250,036
Obligations under the Canada Mortgage Bond Program	10	**1,139,500**	847,287	989,611
Subordinated liabilities	11	**218,355**	217,684	218,247
Provisions		**1,875**	2,274	1,882
Securities under repurchase agreements	10	**120,687**	256,949	221,211
Current tax liabilities		**732**	3,538	-
Deferred tax liabilities		**7,997**	6,401	7,407
Other liabilities	12	**619,201**	509,216	489,295
		14,668,723	13,147,485	13,959,998
Equity				
Share capital	13	**384,996**	349,996	370,996
Contributed surplus		**87,901**	87,901	87,901
Retained earnings		**525,361**	484,835	506,979
Accumulated other comprehensive income		**14,474**	22,802	9,231
Reserves		**4,039**	3,940	3,954
Total equity attributable to members of Central 1		**1,016,771**	949,474	979,061
Non-controlling interest		**9,959**	9,916	9,959
		1,026,730	959,390	989,020
		$ 15,695,453	$ 14,106,875	$ 14,949,018
Guarantees, commitments, and contingencies	19			

Approved by the Directors:

"Rick Hoevenaars"
Rick Hoevenaars, Chairperson

"Bill Kiss"
Bill Kiss, Chairperson - Audit and Finance Committee

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Profit (Unaudited)

(Thousands of dollars)	Notes	For the three months ended Jun 30 2016	Jun 30 2015	For the six months ended Jun 30 2016	Jun 30 2015
Interest income					
Securities		**$ 41,398**	$ 35,966	**$ 81,402**	$ 73,623
Deposits with regulated financial institutions		**24**	29	**49**	60
Loans		**7,434**	5,104	**14,610**	10,747
Reinvestment assets		**1,119**	460	**1,973**	838
		49,975	41,559	**98,034**	85,268
Interest expense					
Debt securities issued		**3,761**	4,475	**7,267**	10,480
Deposits		**27,815**	27,498	**56,185**	55,869
Obligations under the CMB Program		**4,383**	3,587	**8,631**	6,391
Subordinated liabilities		**1,518**	1,570	**3,040**	3,104
		37,477	37,130	**75,123**	75,844
Interest margin		**12,498**	4,429	**22,911**	9,424
Gain (loss) on disposal of financial instruments	14	**(879)**	1,288	**(2,159)**	5,296
Change in fair value of financial instruments	15	**4,140**	7,528	**6,399**	14,228
Net financial income		**15,759**	13,245	**27,151**	28,948
Provision for credit losses	6	**70**	23	**102**	34
		15,689	13,222	**27,049**	28,914
Other income	16	**38,333**	37,099	**70,607**	65,714
Net financial and other income		**54,022**	50,321	**97,656**	94,628
Operating expenses					
Salaries and employee benefits		**19,826**	17,210	**38,769**	34,244
Premises and equipment		**1,650**	1,649	**3,448**	3,298
Other administrative expenses	17	**16,585**	14,114	**30,104**	26,157
		38,061	32,973	**72,321**	63,699
Profit before income taxes		**15,961**	17,348	**25,335**	30,929
Income taxes		**2,592**	2,597	**3,474**	4,800
Profit for the period		**$ 13,369**	$ 14,751	**$ 21,861**	$ 26,129

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 Jun 30 2016	Jun 30 2015	For the six months ended Jun 30 2016	Jun 30 2015
Profit for the period	**$ 13,369**	$ 14,751	**$ 21,861**	$ 26,129
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to profit or loss				
Fair value reserve (available-for-sale financial assets)				
Net change in fair value of available-for-sale assets[1]	**8,940**	(5,008)	**7,801**	9,443
Reclassification of realized gains on available-for-sale assets to profit or loss[2]	**(921)**	(4,917)	**(3,194)**	(10,604)
Share of the other comprehensive income of affiliates accounted for using the equity method[3]	**292**	(630)	**605**	382
	8,311	(10,555)	**5,212**	(779)
Item that will not be reclassified subsequently to profit or loss				
Net actuarial gain (loss) on employee benefits plans[4]	**-**	(84)	**31**	482
Other comprehensive income (loss), net of tax	**8,311**	(10,639)	**5,243**	(297)
Comprehensive income, net of tax	**$ 21,680**	$ 4,112	**$ 27,104**	$ 25,832

Income taxes (recoveries) on items that may be reclassified subsequently to profit or loss				
[1] Net change in fair value of available-for-sale assets	**$ 2,024**	$ (982)	**$ 1,766**	$ 1,853
[2] Reclassification of realized gains on available-for-sale assets to profit or loss	**$ (209)**	$ (964)	**$ (724)**	$ (2,080)
[3] Share of the other comprehensive income of affiliates accounted for using the equity method	**$ 13**	$ (27)	**$ 26**	$ 16
Income tax (recovery) on item that will not be reclassified subsequently to profit or loss				
[4] Net actuarial gain (loss) on employee benefits plans	**$ -**	$ 45	**$ (31)**	$ 129

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION

Interim Consolidated Statements of Changes in Equity (Unaudited)

	Attributable to equity holders								
(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
Balance at January 1, 2016	$ 370,996	$ 87,901	$ 506,979	$ 11,567	$ (2,336)	$ 3,954	$ 979,061	$ 9,959	$ 989,020
Total comprehensive income for the period									
Profit for the period			21,861				21,861	-	21,861
Other comprehensive loss, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				5,212			5,212		5,212
Employee benefits reserve (net of tax)					31		31		31
Total comprehensive income	-	-	21,861	5,212	31	-	27,104	-	27,104
Transactions with owners, recorded directly in equity									
Dividends to members			(4,162)				(4,162)		(4,162)
Related tax savings			768				768		768
Net Classes "A", "B" and "C" shares issued	14,000						14,000		14,000
Preferred shares redeemed by subsidiary							-	-	-
Transfer from reserves			(85)			85	-		-
Total contributions from and distributions to owners	14,000	-	(3,479)	-	-	85	10,606	-	10,606
Balance at June 30, 2016	**$ 384,996**	**$ 87,901**	**$ 525,361**	**$ 16,779**	**$ (2,305)**	**$ 4,039**	**$ 1,016,771**	**$ 9,959**	**$ 1,026,730**

Profit attributable to:

	2016	2015
Members of Central 1	**$ 21,861**	$ 26,110
Non-controlling interest	-	19
	$ 21,861	$ 26,129

Total comprehensive income attributable to:

Members of Central 1	**$ 27,104**	$ 25,813
Non-controlling interest	-	19
	$ 27,104	$ 25,832

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements 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, 2015	$ 333,118	$ 87,901	$ 467,072	$ 29,048	$ (5,949)	$ 3,751	$ 914,941	$ 9,902	$ 924,843
Total comprehensive income for the period									
Profit for the period			26,110				26,110	19	26,129
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(779)			(779)		(779)
Employee benefits reserve (net of tax)					482		482		482
Total comprehensive income	-	-	26,110	(779)	482	-	25,813	19	25,832
Transactions with owners, recorded directly in equity									
Dividends to members			(9,619)				(9,619)		(9,619)
Related tax savings			1,576				1,576		1,576
Class "E" shares redemption			(138)				(138)		(138)
Related tax savings			23				23		23
Net Classes "A", "B" and "C" shares issued	16,878						16,878		16,878
Preferred shares issued by subsidiary							-	(5)	(5)
Transfer from reserves			(189)			189	-		-
Total contributions from and distributions to owners	16,878	-	(8,347)	-	-	189	8,720	(5)	8,715
Balance at June 30, 2015	$ 349,996	$ 87,901	$ 484,835	$ 28,269	$ (5,467)	$ 3,940	$ 949,474	$ 9,916	$ 959,390

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Cash Flows (Unaudited)

(Thousands of dollars)	For the three months ended Jun 30 2016	Jun 30 2015	For the six months ended Jun 30 2016	Jun 30 2015
Cash flows from operating activities				
Profit for the period	**$ 13,369**	$ 14,751	**$ 21,861**	$ 26,129
Adjustments for:				
Depreciation and amortization	**1,501**	1,180	**2,697**	2,365
Interest margin	**(12,498)**	(4,429)	**(22,911)**	(9,424)
(Gain) loss on disposal of financial instruments	**879**	(1,288)	**2,159**	(5,296)
Change in fair value of financial instruments	**(4,140)**	(7,528)	**(6,399)**	(14,228)
Income tax expense	**2,592**	2,597	**3,474**	4,800
Provision for credit losses	**70**	23	**102**	34
Other items, net	**(4,134)**	(3,818)	**(8,408)**	(4,242)
	(2,361)	1,488	**(7,425)**	138
Change in trading assets	**(518,113)**	239,391	**(1,353,780)**	13,718
Change in settlements in-transit	**(964)**	(293,584)	**200,430**	(318,378)
Change in loans	**(514,458)**	(253,654)	**(262,595)**	(91,513)
Change in deposits designated as trading	**514,769**	566,240	**273,075**	867,623
Change in obligations related to securities sold short	**(30,441)**	118,546	**(29,609)**	18,186
Change in deposits	**218,092**	(630)	**87,427**	(124,292)
Change in derivative assets and liabilities	**(3,438)**	(11,351)	**(7,114)**	(25,829)
	(336,914)	366,446	**(1,099,591)**	339,653
Interest received	**60,616**	48,056	**100,683**	87,498
Interest paid	**(45,139)**	(47,003)	**(77,264)**	(88,269)
Income tax paid	**(1,630)**	(17)	**(6,630)**	(37)
Net cash from operating activities	**(323,067)**	367,482	**(1,082,802)**	338,845
Cash flows from investing activities				
Change in deposits with regulated financial institutions	**(75,056)**	123	**(74,756)**	123
Change in reinvestment assets under the CMB Program	**(41,226)**	(16,654)	**(79,455)**	(34,327)
Change in investment securities	**342,897**	(282,298)	**1,043,488**	(453,779)
Change in property and equipment	**111**	(321)	**(442)**	(492)
Change in intangible assets	**(3,361)**	(2,506)	**(5,685)**	(3,949)
Net cash from investing activities	**223,365**	(301,656)	**883,150**	(492,424)
Cash flows from financing activities				
Change in debt securities issued	**107,366**	(326,794)	**184,765**	(295,275)
Change in obligations under the CMB Program	**74,737**	53,790	**145,635**	241,662
Change in subordinated liabilities	**(1,393)**	-	**(1,393)**	-
Change in securities under repurchase agreements	**(39,035)**	134,450	**(100,515)**	151,218
Dividends paid	**-**	-	**(14,428)**	(22,448)
Issuance of shares	**14,000**	16,990	**14,000**	16,878
Net cash from financing activities	**155,675**	(121,564)	**228,064**	92,035
Increase (decrease) in cash	**55,973**	(55,738)	**28,412**	(61,544)
Cash - beginning of period	**79,273**	139,397	**106,834**	145,203
Cash - end of period	**$ 135,246**	$ 83,659	**$ 135,246**	$ 83,659

See accompanying notes to the Interim Consolidated Financial Statements

1. General information

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 cover Central 1 and its subsidiaries.

Central 1 is the primary liquidity manager, payments processor 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 presentation

These Interim Consolidated Financial Statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* as issued by the International Accounting Standards Board.

The Interim Consolidated Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Central 1's Annual Consolidated Financial Statements for the year ended December 31, 2015.

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 26, 2016.

3. Accounting policies

These Interim Consolidated Financial Statements have been prepared using the same accounting policies as set out in Note 3 to Central 1's Annual Consolidated Financial Statements as at and for the year ended December 31, 2015 except with respect to the designation of a single portfolio of commercial loans acquired during the quarter as fair value through profit or loss, as disclosed in Note 6. The remaining loan portfolio continues to be classified as loans and receivables and initially measured at fair value plus incremental direct transaction costs on the trade date in the Consolidated Statements of Financial Position. They are subsequently measured at amortized cost using the effective interest method, net of allowances for credit losses and any unearned interest.

4. Securities

Trading assets

Total trading assets included in the Interim Consolidated Statements of Financial Position are as follows:

(Thousands of dollars)		Jun 30 2016		Jun 30 2015		Dec 31 2015
Government and government guaranteed securities	**$**	**5,915,234**	$	4,066,631	$	4,579,399
Corporate and major financial institutions AA[(1)] or greater		**1,804,279**		1,475,317		1,847,895
Other		**425,539**		276,919		338,263
Fair value	**$**	**8,145,052**	$	5,818,867	$	6,765,557
Amortized cost	**$**	**8,071,274**	$	5,748,622	$	6,713,809

(1) The credit ratings are provided by Dominion Bond Rating Services (DBRS).

Investment securities

Total investment securities classified as available-for-sale included in the Interim Consolidated Statements of Financial Position are as follows:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Government and government guaranteed securities	**$ 3,332,081**	$ 3,913,965	$ 3,663,936
Corporate and major financial institutions AA[(1)] or greater	**1,017,763**	1,552,540	1,605,733
Other	**294,544**	471,764	410,489
Fair value	**$ 4,644,388**	$ 5,938,269	$ 5,680,158
Amortized cost	**$ 4,636,804**	$ 5,915,994	$ 5,678,352

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

The above table includes $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. There have been no changes in this amount from prior periods.

Reinvestment assets under the Canada Mortgage Bond Program

As principal payments on the underlying securitized assets are received, Central 1 is required to reinvest the proceeds on behalf of Canada Housing Trust (CHT). These reinvestment assets, which are recognized in the Interim Consolidated Statements of Financial Position at fair value, are as follows:

Reinvestment assets under the Canada Mortgage Bond (CMB) Program classified as fair value through profit or loss:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Government and government guaranteed securities	**$ 166,479**	$ 56,640	$ 101,919
Assets acquired under reverse repurchase agreements	**1,662**	-	-
Fair value	**$ 168,141**	$ 56,640	$ 101,919
Amortized cost	**$ 166,587**	$ 55,734	$ 101,022

Reinvestment assets under the CMB Program classified as available-for-sale:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Government and government guaranteed securities	**$ 77,070**	$ 44,161	$ 63,227
Fair value	**$ 77,070**	$ 44,161	$ 63,227
Amortized cost	**$ 76,493**	$ 43,479	$ 62,522
Fair value of total reinvestment assets under the CMB Program	**$ 245,211**	$ 100,801	$ 165,146

5. Derivative instruments

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

(Thousands of dollars)	Jun 30 2016 Asset	Jun 30 2016 Liability	Jun 30 2015 Asset	Jun 30 2015 Liability	Dec 31 2015 Asset	Dec 31 2015 Liability
Interest rate contracts						
Bond forwards	**$ 874**	**$ 678**	$ 34	$ -	$ 299	$ 147
Futures contracts	**14**	**-**	22	79	118	137
Swap contracts	**236,412**	**246,675**	231,866	263,457	238,348	252,275
	237,300	**247,353**	231,922	263,536	238,765	252,559
Foreign exchange contracts						
Forward contracts	**1,696**	**1,560**	1,739	2,151	5,105	5,485
Other						
Equity index-linked options	**10,882**	**10,882**	12,526	12,526	8,287	8,287
Total fair value before adjustment	**249,878**	**259,795**	246,187	278,213	252,157	266,331
Adjustment for master netting agreements	**(136,173)**	**(136,173)**	(151,279)	(151,279)	(135,526)	(135,526)
Fair value	**$ 113,705**	**$ 123,622**	$ 94,908	$ 126,934	$ 116,631	$ 130,805

The amounts that have been pledged and received as collateral are $18.2 million and $32.8 million, respectively, as at June 30, 2016.

All derivatives are traded over-the-counter except for futures which are exchange traded.

Hedge accounting

Central 1 uses interest rate swaps to hedge its exposure to changes in the fair values of select commercial loans which are at risk of changes in market interest rates. Interest rate swaps are matched to specific commercial loans. Central 1 has elected to adopt hedge accounting in respect of the swap and the loans.

The fair values of derivatives designated as fair value hedges are as follows:

(Thousands of dollars)	Jun 30 2016 Asset	Jun 30 2016 Liability	Jun 30 2015 Asset	Jun 30 2015 Liability	Dec 31 2015 Asset	Dec 31 2015 Liability
Interest rate contracts	**$ -**	**$ 2,503**	$ -	$ -	$ 421	$ -

Fair value hedges are recorded at fair value and the commercial loans that are part of a hedging relationship are adjusted for the changes in value of the risk being hedged (fair value hedge adjustment). To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item (hedge ineffectiveness), the net amount is recorded directly in the Interim Consolidated Statements of Profit.

The following table presents the impact of fair value hedges on profit:

(Thousands of dollars)	For the three months ended Jun 30 2016	For the three months ended Jun 30 2015	For the six months ended Jun 30 2016	For the six months ended Jun 30 2015
Change in fair value on hedging derivatives	**$ (315)**	$ -	**$ (2,924)**	$ -
Fair value hedge adjustment	**296**	-	**2,920**	-
Hedge ineffectiveness recorded in profit	**$ (19)**	$ -	**$ (4)**	$ -

6. Loans

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Amortized cost			
Due on demand			
Credit unions	**$ 33,582**	$ 58,688	$ 16,290
Commercial and others	**2,317**	11,869	3,263
	35,899	70,557	19,553
Term			
Credit unions	**622,150**	411,818	767,800
Commercial and others	**574,706**	242,010	531,388
Reverse repurchase agreements	**307,393**	392,400	48,880
Officers and employees	**9,088**	10,097	9,441
Residential mortgages	**130,345**	11,905	97,995
	1,643,682	1,068,230	1,455,504
	1,679,581	1,138,787	1,475,057
Accrued interest	**1,820**	836	1,285
Premium	**16,420**	54	14,998
	1,697,821	1,139,677	1,491,340
Allowance for credit losses	**(556)**	(693)	(501)
Amortized cost	**$ 1,697,265**	$ 1,138,984	$ 1,490,839
Fair value through profit or loss			
Term			
Commercial and others	**$ 58,828**	$ -	$ -
Accrued interest	**187**	-	-
Premium	**408**	-	-
Amortized cost	**$ 59,423**	$ -	$ -
Fair value	**$ 59,579**	$ -	$ -
Total loans	**$ 1,756,844**	$ 1,138,984	$ 1,490,839

Loans to officers and employees bear interest at rates varying from 2.49% to 2.75%.

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

			For the three months ended		For the six months ended	
(Thousands of dollars)	Specific Allowance	Collective Allowance	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015
Balance at beginning of period	**$ 408**	**$ 125**	**$ 533**	$ 689	**$ 501**	$ 664
Net write-offs (recovery) during the period	**-**	**(47)**	**(47)**	(19)	**(47)**	(5)
Provision for credit losses	**2**	**68**	**70**	23	**102**	34
Balance at end of period	**$ 410**	**$ 146**	**$ 556**	$ 693	**$ 556**	$ 693

7. Other assets

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Settlements in-transit	**$ 369,789**	$ 736,082	$ 427,167
Investment property	**1,310**	3,341	1,431
Prepaid expenses	**7,398**	5,660	4,581
Post-employment benefits	**3,238**	3,224	3,306
Accounts receivable and other	**6,838**	6,293	4,472
	$ 388,573	$ 754,600	$ 440,957

8. Deposits

The contractual maturity dates of deposits designated as trading are as follows:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Amounts			
Due within three months	**$ 1,843,147**	$ 1,879,361	$ 1,987,607
Due after three months and within one year	**1,625,850**	1,442,593	1,620,371
Due after one year and within five years	**4,283,005**	2,979,937	3,858,176
Due after five years	**3,070**	3,000	11,970
	7,755,072	6,304,891	7,478,124
Accrued interest	**34,429**	30,540	33,641
Amortized cost	**$ 7,789,501**	$ 6,335,431	$ 7,511,765
Fair value	**$ 7,844,033**	$ 6,382,840	$ 7,546,745

Deposits held at amortized cost are as follows:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Amounts			
Due on demand	**$ 1,626,171**	$ 1,420,643	$ 1,371,545
Due within three months	**182,777**	461,510	431,726
Due after three months and within one year	**908,838**	681,332	922,457
Due after one year and within five years	**572,185**	739,511	510,816
Due after five years	**35,000**	-	1,000
	3,324,971	3,302,996	3,237,544
Accrued interest	**9,717**	13,874	12,492
Amortized cost	**$ 3,334,688**	$ 3,316,870	$ 3,250,036

9. Obligations related to securities sold short

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Amortized cost	**$ -**	$ 204,145	$ 29,350
Fair value	**$ -**	$ 205,059	$ 29,415

10. Significant funding transactions

Debt securities issued

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Amounts			
Due within three months	**$ 657,630**	$ 203,728	$ 320,863
Due after three months and within one year	**599,310**	468,820	454,004
Due after one year and within five years	**-**	598,734	299,461
	1,256,940	1,271,282	1,074,328
Accrued interest	**1,093**	1,151	1,016
Amortized cost	**$ 1,258,033**	$ 1,272,433	$ 1,075,344

Central 1 has established $50.8 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At June 30, 2016, June 30, 2015, and December 31, 2015 there were no amounts drawn against these facilities.

Central 1 is authorized to issue up to $750.0 million 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, 2016, a par value of $658.0 million was borrowed under the short-term commercial paper facility (June 30, 2015 - $674.5 million, December 31, 2015 - $476.0 million) and a par value of $600.0 million was borrowed under the medium-term note facility (June 30, 2015 - $600.0 million, December 31, 2015 - $600.0 million).

Obligations under the CMB Program

Central 1 has recognized its obligations to CHT under the CMB Program at fair value in the Interim Consolidated Statements of Financial Position. The contractual maturity dates of these obligations are indicated below.

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Amounts			
Due within one year	**$ 59,952**	$ -	$ -
Due after one year and within five years	**1,055,494**	827,232	970,329
	1,115,446	827,232	970,329
Accrued interest	**1,275**	1,776	733
Amortized cost	**$ 1,116,721**	$ 829,008	$ 971,062
Fair value	**$ 1,139,500**	$ 847,287	$ 989,611

The underlying assets which are designated to offset these obligations are as follows:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Total reinvestment assets			
under the CMB Program (see Note 4)	**$ 245,211**	$ 100,801	$ 165,146
Assets recognized as securities (see Note 4)	**780,842**	746,590	822,051
Fair value	**$ 1,026,053**	$ 847,391	$ 987,197

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Assets recognized in loans			
Amortized cost	**$ 103,608**	$ -	$ -

Securities under repurchase agreements

(Thousands of dollars)		Jun 30 2016		Jun 30 2015		Dec 31 2015
Amounts under the CMB Program	**$**	**120,687**	$	256,949	$	170,325
Other		**-**		-		50,886
Amortized cost	**$**	**120,687**	$	256,949	$	221,211

11. Subordinated liabilities

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

(Thousands of dollars)		Jun 30 2016		Jun 30 2015		Dec 31 2015
Series 3	**$**	**18,000**	$	18,000	$	18,000
Series 4		**200,000**		200,000		200,000
Principal amount		**218,000**		218,000		218,000
Discount		**(717)**		(1,388)		(824)
Accrued interest		**1,072**		1,072		1,071
Amortized cost	**$**	**218,355**	$	217,684	$	218,247

On July 6, 2011, Central 1 issued $18.0 million principal amount of Series 3 subordinated 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 or after July 6, 2016, subject to regulatory approval. Central 1 received regulatory approval and exercised the option to fully redeem $18.0 million of Tier 2 qualifying subordinated debt on July 6, 2016. This redemption was replaced by $21.0 million of new Tier 2 qualifying subordinated debt.

On April 25, 2014, Central 1 issued $200.0 million principal amount of 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%. Central 1 has the option to redeem the notes on or after April 25, 2019, subject to regulatory approval.

The notes are recognized in the Interim Consolidated Statements of Financial Position at amortized cost.

12. Other liabilities

(Thousands of dollars)		Jun 30 2016		Jun 30 2015		Dec 31 2015
Settlements in-transit	**$**	**575,965**	$	453,824	$	432,913
Post-employment benefits		**22,949**		25,413		22,828
Short-term employee benefits		**4,321**		5,373		5,449
Dividends payable		**4,162**		9,619		14,428
Unearned insurance premiums		**287**		288		1,343
Accounts payable and other		**11,517**		14,699		12,334
	$	**619,201**	$	509,216	$	489,295

13. Share capital

Details of Central 1's share capital disclosures were disclosed in Note 23 of the Annual Consolidated Financial Statements as at December 31, 2015.

The numbers of shares issued are as follows:

(Thousands of shares)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Class A – credit unions			
Balance at beginning of period	**370,952**	333,074	333,074
Issued during the period	**14,000**	17,000	38,000
Redeemed during the period	**-**	(122)	(122)
Balance at end of period	**384,952**	349,952	370,952
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	**3,157**	3,158	3,158
Redeemed during the period	**-**	(1)	(1)
Balance at end of period	**3,157**	3,157	3,157

The amounts outstanding are as follows:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Outstanding $1 par value shares			
Class A – credit unions	**$ 384,952**	$ 349,952	$ 370,952
Class B – cooperatives	**5**	5	5
Class C – other	**7**	7	7
Outstanding $0.01 par value shares			
Class E – credit unions	**32**	32	32
	$ 384,996	$ 349,996	$ 370,996

The dividend amounts are as follows:

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Dividend payable, balance at beginning of period	**$ 14,428**	$ 22,448	$ 22,448
Declared during the period	**4,162**	9,619	14,428
Paid during the period	**(14,428)**	(22,448)	(22,448)
Dividend payable, balance at end of period	**$ 4,162**	$ 9,619	$ 14,428

14. 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 Jun 30 2016	For the three months ended Jun 30 2015	For the six months ended Jun 30 2016	For the six months ended Jun 30 2015
Net gain on disposal of trading assets	**$ 1,647**	$ 7,711	**$ 5,131**	$ 26,980
Net gain on disposal of investment securities	**1,130**	5,881	**3,918**	12,684
Net loss on disposal of derivative instruments	**(876)**	(11,619)	**(6,930)**	(25,443)
Net loss on disposal of deposits designated as trading	**(2,254)**	(839)	**(3,872)**	(3,342)
Net gain (loss) on disposal of obligations related to securities sold short	**(526)**	154	**(406)**	(5,583)
	$ (879)	$ 1,288	**$ (2,159)**	$ 5,296

15. Change in fair value of financial instruments

(Thousands of dollars)	For the three months ended Jun 30 2016	For the three months ended Jun 30 2015	For the six months ended Jun 30 2016	For the six months ended Jun 30 2015
Trading assets	**$ 15,255**	$ (20,873)	**$ 22,031**	$ 27,143
Loans	**156**	-	**156**	-
Activities under the CMB Program				
Reinvestment assets	**433**	(12)	**660**	547
Derivative instruments	**(806)**	(870)	**1,773**	2,200
Obligations under the CMB Program	**(2,058)**	3,156	**(4,231)**	(10,381)
Derivative instruments	**1,769**	18,632	**5,497**	19,598
Trading liabilities				
Deposits designated as trading	**(10,655)**	8,120	**(19,552)**	(24,884)
Obligations related to securities sold short	**46**	(625)	**65**	5
	$ 4,140	$ 7,528	**$ 6,399**	$ 14,228

16. Other income

(Thousands of dollars)	For the three months ended Jun 30 2016	Jun 30 2015	For the six months ended Jun 30 2016	Jun 30 2015
Digital & Payment Services				
Payment processing and other fees	**$ 13,195**	$ 12,691	**$ 25,423**	$ 24,158
Direct banking fees	**7,801**	7,493	**14,723**	14,419
Treasury Related Services				
Treasury services and foreign exchange income	**1,736**	1,314	**2,831**	2,612
Lending fees	**2,806**	2,299	**5,534**	4,245
Trust services	**523**	534	**1,035**	1,049
Membership dues and provincial advertising assessment	**3,200**	3,241	**6,419**	6,318
Trade and Other Services				
Product compliance services	**370**	375	**763**	764
Property rents	**133**	209	**279**	488
Risk solutions services	**285**	385	**546**	703
Marketing and research programs	**1,249**	994	**1,680**	1,439
Other	**384**	1,191	**951**	2,139
Equity interest in affiliates	**2,470**	2,428	**5,203**	2,869
Income from investees	**3,568**	3,277	**4,078**	3,320
Insurance premiums and assessments	**613**	668	**1,142**	1,191
	$ 38,333	$ 37,099	**$ 70,607**	$ 65,714

17. Other administrative expenses

(Thousands of dollars)	For the three months ended Jun 30 2016	Jun 30 2015	For the six months ended Jun 30 2016	Jun 30 2015
Cost of sales and services	**$ 4,367**	$ 4,413	**$ 7,101**	$ 7,091
Cost of payments processing	**4,415**	4,077	**8,332**	8,118
Insurance claims and premiums	**335**	409	**626**	608
Management information services	**2,415**	1,660	**4,750**	3,204
Business development projects	**343**	392	**573**	594
Professional fees	**2,303**	1,056	**4,133**	2,420
Other	**2,407**	2,107	**4,589**	4,122
	$ 16,585	$ 14,114	**$ 30,104**	$ 26,157

18. Segment information

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

A description of each business segment is as follows:

Mandatory Liquidity Pool

The MLP is responsible for providing extraordinary liquidity to the credit union systems 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. Central 1 manages the pool within the regulatory constraints and leverages its economies of scale to reduce costs associated with the pool. Assets held in the pool remain highly liquid in order to ensure immediate access to funds. Members receive a return on their deposits in the form of both interest and dividends which in aggregate equals to the return on the liquidity portfolio after expenses.

Wholesale Financial Services

The WFS supports the structural and tactical liquidity needs of member credit unions in pursuit of regular, day-to-day business objectives. The segment 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 funds and fostering the system's growth, which involves credit unions lending and access to securitization vehicles, allowing members to take advantage of Central 1's strong financial ratings, industry expertise and access to the capital markets for short and long term funding. WFS also supports the short term liquidity requirement for the Digital & Payment Services segment. Central 1 also provides foreign exchange services, derivative capabilities and other ancillary treasury services under the WFS segment.

Digital & Payment Services

Digital & Payment Services represent the payment and settlement operations, network access, direct banking and the Group Clearer functions. Payment and settlement operations encompass processing paper items and electronic transactions such as automated funds transfer 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® within this segment. Network access operations works with key stakeholders to proactively plan and implement Canadian Payments Association (CPA) policy and change initiatives, procedures and/or technology changes.

Under the *MemberDirect®* brand, Central 1 develops and delivers direct banking products, which 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. *MemberDirect®* Services provides credit unions with personal electronic banking services that are, in turn, offered to individual retail members and business-to-business products for small and medium-size enterprises.

Central 1 is a Group Clearer under the rules of the 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

As a trade association, Central 1's services to its members include operational support, marketing and creative services, economics, compliance, risk management, communications, strategic and people solutions tailored to the needs of member credit unions. These value-added services give member credit unions access to a wealth of expertise, while remaining affordable through economies of scale.

Other

Other segment comprises enterprise level activities which are not allocated to these four business segments, such as consolidation adjustments and corporate support functions. Corporate level tax items and charges associated with unattributed capital are included in corporate support functions. Central 1's investments in equity shares of system-related entities other than the wholly owned subsidiaries as described in Note 22, together with other assets and liabilities not allocated to the four business segments, are also included in the Other 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 the business segments are managed. This approach is intended to ensure that the 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 cost of services incurred directly as well as attributed corporate costs. For 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 each of the business segments is used. The management reporting framework assists 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 to the four business segments are reported under the Other segment.

Basis of presentation

The accounting policies used to prepare these segments are consistent with those followed in the preparation of Central 1's Interim Consolidated Financial Statements as described in Note 3.

Periodically, certain business lines and units are transferred among business segments to closely align Central 1's organizational structure with its strategic priorities. In addition, revenue and expense allocations are updated to more accurately align with current experience. Results for prior periods are restated to conform to the current period presentation.

Results by segment

The following table summarizes the segment results for the three months ended June 30, 2016:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 3,785	$ 12,861	$ (55)	$ 84	$ (986)	$ 15,689
Other income	(2)	4,492	20,996	4,675	8,172	38,333
Net financial and other income	3,783	17,353	20,941	4,759	7,186	54,022
Operating expenses	1,919	4,808	19,592	4,735	7,007	38,061
Profit (loss) before income taxes	1,864	12,545	1,349	24	179	15,961
Income taxes (recoveries)	344	2,314	249	5	(320)	2,592
Profit for the period	$ 1,520	$ 10,231	$ 1,100	$ 19	$ 499	$ 13,369

The following table summarizes the segment results for the three months ended June 30, 2015:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 3,286	$ 10,983	$ (64)	$ 46	$ (1,029)	$ 13,222
Other income	35	3,663	20,184	4,926	8,291	37,099
Net financial and other income	3,321	14,646	20,120	4,972	7,262	50,321
Operating expenses	1,801	4,231	16,662	5,323	4,956	32,973
Profit (loss) before income taxes	1,520	10,415	3,458	(351)	2,306	17,348
Income taxes (recoveries)	250	1,855	567	(103)	28	2,597
Profit (loss) for the period	$ 1,270	$ 8,560	$ 2,891	$ (248)	$ 2,278	$ 14,751

The following table summarizes the segment results for the six months ended June 30, 2016:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 8,139	$ 20,898	$ (108)	$ 152	$ (2,032)	$ 27,049
Other income	(189)	8,567	40,146	8,475	13,608	70,607
Net financial and other income	7,950	29,465	40,038	8,627	11,576	97,656
Operating expenses	3,788	9,639	38,617	8,764	11,513	72,321
Profit (loss) before income taxes	4,162	19,826	1,421	(137)	63	25,335
Income taxes (recoveries)	768	3,660	262	(25)	(1,191)	3,474
Profit (loss) for the period	$ 3,394	$ 16,166	$ 1,159	$ (112)	$ 1,254	$ 21,861
Total assets at Jun 30 2016	$7,567,796	$ 7,318,483	$ 560,878	$ 10,156	$ 238,140	$15,695,453
Total liabilities at Jun 30 2016	$7,097,528	$ 6,835,123	$ 535,991	$ (7,310)	$ 207,391	$14,668,723
Total equity at Jun 30 2016	$ 470,268	$ 483,360	$ 24,887	$ 17,466	$ 30,749	$ 1,026,730

The following table summarizes the segment results for the six months ended June 30, 2015:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 13,371	$ 17,624	$ (133)	$ 155	$ (2,103)	$ 28,914
Other income	(187)	7,127	38,577	8,492	11,705	65,714
Net financial and other income	13,184	24,751	38,444	8,647	9,602	94,628
Operating expenses	3,565	8,271	33,465	9,524	8,874	63,699
Profit (loss) before income taxes	9,619	16,480	4,979	(877)	728	30,929
Income taxes (recoveries)	1,577	2,701	816	(233)	(61)	4,800
Profit (loss) for the period	$ 8,042	$ 13,779	$ 4,163	$ (644)	$ 789	$ 26,129
Total assets at Jun 30 2015	$7,217,899	$ 5,728,110	$ 919,362	$ 9,172	$ 232,332	$14,106,875
Total liabilities at Jun 30 2015	$6,774,002	$ 5,285,953	$ 884,345	$ (10,356)	$ 213,541	$13,147,485
Total equity at Jun 30 2015	$ 443,897	$ 442,157	$ 35,017	$ 19,528	$ 18,791	$ 959,390

19. Guarantees, commitments and contingencies

Central 1 is a Group Clearer under the rules of the 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 (collectively, 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.

In the normal course of business, Central 1 enters into various off-balance sheet credit instruments to meet the financing, credit and liquidity requirements of its member credit unions. These are in the form of commitments to extend credit, standby commitments, and performance guarantees.

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Commitments to extend credit	**$ 4,302,980**	$ 3,955,146	$ 3,857,075
Guarantees	**$ 822,000**	$ 499,000	$ 687,000
Standby letters of credit	**$ 155,358**	$ 141,295	$ 145,392
Mortgage purchase commitment	**$ 19,861**	$ -	$ 16,066

Amounts utilized under these agreements for commitments, guarantees, and letter of credit, respectively, on June 30, 2016 are $26.8 million, $355.0 million and $96.7 million (June 30, 2015 - $20.4 million, $178.5 million and $84.4 million; December 31, 2015 - $29.6 million, $313.5 million and $86.7 million).

Central 1 is also 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.

Pledged assets

In the normal course of business, Central 1 pledges securities and other assets as collateral. A breakdown of encumbered assets pledged as collateral is provided in the following table. These transactions are conducted in accordance with standard terms and conditions for such transactions.

(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Assets pledged to Bank of Canada & Direct Clearing Organizations[(1)(2)]	**$ 55,678**	$ 57,632	$ 56,653
Assets pledged in relation to:			
Derivative financial instrument transactions	**13,802**	4,306	17,787
Securities lending	**115,245**	20,145	100,759
Obligations under the CMB Program	**886,850**	749,489	824,951
Reinvestment assets under the CMB Program	**245,211**	100,801	165,146
Securities under repurchase agreements	**120,687**	265,766	221,174
	$ 1,437,473	$ 1,198,139	$ 1,386,470

(1) Includes assets pledged as collateral for LVTS activities.
(2) Central 1 also acts as a Group Clearer on behalf of certain other credit union centrals. These centrals are required to pledge securities in respect of their LVTS settlements. Central 1 administers the collateral on their behalf.

20. Financial instruments – Fair value

Certain financial instruments are recognized in the Interim Consolidated Statements of Financial Position at fair value. These include derivative instruments, trading assets, investment securities, deposits designated as trading, and instruments held under the CMB Program. The fair value 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 under current market conditions. The fair value of financial instruments is best evidenced by unadjusted quoted prices in active markets. When there is no quoted price in an active market, valuation techniques which maximize the use of relevant observable inputs and minimize the use of unobservable inputs are used to derive the fair value.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received. 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.

Financial instruments whose carrying value approximate fair value

Fair value is assumed to be equal to the carrying value for cash, loans due on demand classified as loans and receivables and deposits due on demand classified as other financial 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 debt securities issued and subordinated debt are 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: Inputs that are quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. 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: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

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

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

(Millions of dollars) Jun 30 2016	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Assets						
Cash	$ -	$ -	$ -	$ -	$ 135.2	$ 135.2
Deposits with regulated financial institutions	-	-	-	-	80.8	80.8
Trading assets	-	8,145.1	-	8,145.1	-	8,145.1
Reinvestment assets under the CMB Program	-	245.2	-	245.2	-	245.2
Derivative assets	-	113.7	-	113.7	-	113.7
Loans	-	-	59.6	59.6	1,697.2	1,756.8
Investment securities	-	4,600.7	11.6	4,612.3	32.1	4,644.4
Property and equipment	-	-	-	-	18.1	18.1
Intangible assets	-	-	-	-	24.2	24.2
Deferred tax assets	-	-	-	-	16.6	16.6
Investment in affiliates	-	-	-	-	126.8	126.8
Other assets	-	-	-	-	388.6	388.6
Total assets	$ -	$13,104.7	$ 71.2	$ 13,175.9	$ 2,519.6	$ 15,695.5
Liabilities						
Deposits designated as trading	$ -	$ 7,844.0	$ -	$ 7,844.0	$ -	$ 7,844.0
Derivative liabilities	-	123.6	-	123.6	-	123.6
Debt securities issued	-	-	-	-	1,258.0	1,258.0
Deposits	-	-	-	-	3,334.7	3,334.7
Obligations under the CMB Program	-	1,139.5	-	1,139.5	-	1,139.5
Subordinated liabilities	-	-	-	-	218.4	218.4
Provisions	-	-	-	-	1.9	1.9
Securities under repurchase agreements	-	-	-	-	120.7	120.7
Current tax liabilities					0.7	0.7
Deferred tax liabilities	-	-	-	-	8.0	8.0
Other liabilities	-	-	-	-	619.2	619.2
Total liabilities	$ -	$ 9,107.1	$ -	$ 9,107.1	$ 5,561.6	$ 14,668.7
Net assets (liabilities)	**$ -**	**$ 3,997.6**	**$ 71.2**	**$ 4,068.8**	**$ (3,042.0)**	**$ 1,026.8**

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

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

(Millions of dollars) Jun 30 2015	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[(1)]	Total Carrying Value
Assets	$ -	$ 11,911.6	$ 9.2	$ 11,920.8	$ 2,186.1	$ 14,106.9
Liabilities	-	7,562.1	-	7,562.1	5,585.4	13,147.5
Net assets (liabilities)	$ -	$ 4,349.5	$ 9.2	$ 4,358.7	$ (3,399.3)	$ 959.4

(Millions of dollars) Dec 31 2015	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[(1)]	Total Carrying Value
Assets	$ -	$ 12,686.0	$ 9.3	$ 12,695.3	$ 2,253.7	$ 14,949.0
Liabilities	-	8,696.6	-	8,696.6	5,263.4	13,960.0
Net assets (liabilities)	$ -	$ 3,989.4	$ 9.3	$ 3,998.7	$ (3,009.7)	$ 989.0

The following tables present the change in fair value for financial instruments included in Level 3 of the fair value hierarchy:

(Millions of dollars)	Fair Value at Dec 31 2015	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at Jun 30 2016
Equity shares	$ 9.3	$ -	$ -	$ 2.3	$ -	$ 11.6
Loans	-	59.6	-	-	-	59.6
Net assets	$ 9.3	$ 59.6	$ -	$ 2.3	$ -	$ 71.2

(Millions of dollars)	Fair Value at Dec 31 2014	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at Jun 30 2015
Equity shares	$ 9.2	$ -	$ -	$ -	$ -	$ 9.2
Net assets	$ 9.2	$ -	$ -	$ -	$ -	$ 9.2

(Millions of dollars)	Fair Value at Dec 31 2014	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at Dec 31 2015
Equity shares	$ 9.2	$ -	$ -	$ -	$ 0.1	$ 9.3
Net assets	$ 9.2	$ -	$ -	$ -	$ 0.1	$ 9.3

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

	Fair Value		Carrying Value		Unrecognized Gain (Loss)	
(Millions of dollars)	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015
Assets						
Cash	**$ 135.2**	$ 83.7	**$ 135.2**	$ 83.7	**$ -**	$ -
Deposits with regulated financial institutions[(1)]	**80.8**	6.1	**80.8**	6.1	**-**	-
Trading assets and investment securities	**12,789.4**	11,757.1	**12,789.4**	11,757.1	**-**	-
Reinvestment assets under the CMB Program	**245.2**	100.8	**245.2**	100.8	**-**	-
Derivative assets	**113.7**	94.9	**113.7**	94.9	**-**	-
Loans[(2)]	**1,760.4**	1,139.3	**1,756.8**	1,139.0	**3.6**	0.3
Other assets	**574.4**	925.3	**574.4**	925.3	**-**	-
Liabilities						
Deposits designated as trading	**7,844.0**	6,382.8	**7,844.0**	6,382.8	**-**	-
Obligations related to securities sold short	**-**	205.1	**-**	205.1	**-**	-
Derivative liabilities	**123.6**	126.9	**123.6**	126.9	**-**	-
Debt securities issued[(1)]	**1,259.2**	1,276.0	**1,258.0**	1,272.4	**(1.2)**	(3.6)
Deposits[(1)]	**3,342.1**	3,333.4	**3,334.7**	3,316.9	**(7.4)**	(16.5)
Obligations under the CMB Program	**1,139.5**	847.3	**1,139.5**	847.3	**-**	-
Subordinated liabilities[(1)]	**225.6**	224.6	**218.4**	217.7	**(7.2)**	(6.9)
Securities under repurchase agreements	**120.7**	257.0	**120.7**	257.0	**-**	-
Other liabilities	**629.8**	521.4	**629.8**	521.4	**-**	-
Total					**$ (12.2)**	$ (26.7)

(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.

21. Capital management

Central 1's Capital Policy ensures that each business segment has sufficient capital to support its business activities. The objective of managing capital is to optimize various pressures, including but not limited to the following:

- ensuring that regulatory capital adequacy requirements are met at all times;
- ensuring internal capital targets are met; and
- earning an appropriate risk adjusted rate of return on members' equity.

Capital management framework

The capital management framework provides the policies and processes for defining, measuring, and allocating all types of capital across Central 1. The process of attributing capital to business segments is linked to the budgeting process and to the Internal Capital Adequacy Assessment Process (ICAAP). The budget process establishes expected business activities over the course of the following fiscal year and the ICAAP establishes the required amount of capital based on an internal risk assessment. Capital, other than that which is attributed to business segments is held in the Other segment.

Regulatory capital

Central 1's capital levels are regulated under federal guidelines issued by the Office of the Superintendent Financial Institutions (OSFI) 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 deposit liabilities and other loans payable to total regulatory capital, of 20.0:1 or less.

FICOM's requirements are for Central 1 to maintain a federal borrowing multiple of no more than 16.0:1 for the MLP segment and no more than 14.0:1 for the WFS segment.

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 15.0:1 for the MLP segment and 12.0:1 for the WFS segment.

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. The provincial risk weightings generally parallel the methodology used by OSFI to regulate Canadian chartered banks. Provincial Legislation requires Central 1's total capital ratio, calculated by dividing regulatory capital by risk-weighted assets, to be no less than 8.0%. FICOM guidance requires Central 1's total capital ratio to be no less than 10.0%. Additionally, Central 1 must maintain a total 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.

Central 1 was in compliance with all regulatory capital requirements throughout the periods ended June 30, 2016, June 30, 2015, and December 31, 2015.

On May 5, 2015, the Department of Finance announced that OSFI will cease its supervision of provincial credit union centrals on January 15, 2017. This announcement follows the federal government's decision in 2014 to cease the joint supervision of provincial credit union centrals by OSFI.

22. Related party disclosures

Related parties of Central 1 include:

- Key management personnel and their close family members;
- Board of Directors and their close family members;
- Entities over which Central 1 has control or significant influence;
- Central 1's post-employment plans as described in Note 29 of the Annual Consolidated Financial Statements as at December 31, 2015.

Transactions with key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Central 1, which include Central 1's Executive Management and Vice-Presidents.

Loans to key management personnel and their close family members are as follows:

	For the three months ended		For the six months ended	
(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015
Mortgage loans outstanding at end of period	**$ 383**	$ 395	**$ 383**	$ 395
Maximum mortgage loans outstanding during the period	**$ 386**	$ 686	**$ 389**	$ 692

The mortgage loans key members of management personnel bears interest at the rate of 2.50% and is secured over property of the borrower. No impairment losses have been recorded against this balance during the period ended June 30, 2016.

The following table presents the compensation to key management personnel:

	For the three months ended		For the six months ended	
(Thousands of dollars)	Jun 30 2016	Jun 30 2015	Jun 30 2016	Jun 30 2015
Salaries and short-term employee benefits	**$ 793**	$ 727	**$ 1,531**	$ 1,418
Incentive	**746**	684	**746**	684
Post-employment benefits	**59**	53	**107**	108
Termination benefits	**37**	-	**152**	-
Other cash-based compensation	**-**	-	**-**	20
	$ 1,635	$ 1,464	**$ 2,536**	$ 2,230

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.

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

Other cash-based compensation includes relocation costs payable per contractual terms for certain executive officers.

Transactions with Board of Directors

During the three months ended June 30, 2016, the members of Central 1's Board of Directors received aggregate remuneration of $174 thousand (June 30, 2015 - $166 thousand) and for the six months ended June 30, 2016 of $303 thousand (June 30, 2015 - $312 thousand).

Significant subsidiaries

(% of ownership of common shares outstanding)	Jun 30 2016	Jun 30 2015	Dec 31 2015
Central 1 Trust Company	**100%**	100%	100%
CUPP Services Ltd.	**100%**	100%	100%

Central 1's other subsidiaries represent less than 1.0% of Central 1's consolidated assets, revenue and profit before income taxes.

Transactions with subsidiaries are eliminated on consolidation, and are not disclosed as related party transactions.

Investments in affiliates

Central 1 uses the equity method of accounting to record its interests in the following entities over which Central 1 has significant influence:

(% of direct ownership of common shares outstanding)	June 30 2016	Jun 30 2015	Dec 31 2015
Credential Financial Inc.	**26%**	26%	26%
Credit Union Central of Canada	**-%**	51%	52%
The CUMIS Group Limited	**27%**	27%	27%
189286 Canada Inc.	**52%**	-%	-%

Central 1 has indirect ownership of shares of certain affiliates through investments in other companies.

In January 2016 CUCC continued its transition to become the national trade association for credit unions. CUCC has been restructured and its trade association assets and liabilities have been transferred to CCUA. Central 1 does not have significant influence over CCUA.

CUCC's remaining assets and liabilities are now held by 189286 Canada Inc. and Central 1 now owns 52% of 189286 Canada Inc.'s common voting shares. Among a total of five directors, one director from Central 1 was appointed to the Board of 189286 Canada Inc. Central 1 has no control but significant influence over 189286 Canada Inc. and therefore uses the equity method to account for its investment in 189286 Canada Inc.

Substantial investments

Central 1 also has substantial investments in the following entities over which Central 1 does not have significant influence:

(% of direct ownership outstanding)	Jun 30 2016	Jun 30 2015	Dec 31 2015
The Co-operators Group Limited	**21%**	21%	21%
Northwest & Ethical Investments L.P.	**26%**	26%	26%

23. Proposed transaction

On December 18, 2014, Central 1 entered into a Memorandum of Understanding (MOU) with Credit Union Central of Saskatchewan and Concentra Financial Services Association. The purpose of the MOU was to explore the potential for the parties to consolidate wholesale financial and trust business lines, with the aim of forming a national wholesale finance and trust provider with greater capabilities and capacities to serve the system. The MOU expired at the end of June 2016.