

Third Quarter Report 2014

REPORT TO MEMBERS

CENTRAL 1 REPORTS RESULTS FOR THIRD QUARTER OF 2014

Third quarter highlights compared to the same period last year:

- Central 1's Profit for the period of \$10.6 million, compared to Profit of \$8.6 million
- Central 1's Return on average equity 4.6%, compared to 4.0%
- Central 1's Assets of \$12.9 billion, up from \$12.4 billion
- B.C. system⁽¹⁾ Net operating income⁽²⁾ of \$75.1 million, compared to \$92.1 million
- B.C. system Assets of \$61.0 billion, up from \$58.6 billion
- Ontario system⁽³⁾ Net operating income⁽²⁾ of \$34.1 million, versus \$42.7 million
- Ontario system Assets of \$35.2 billion, up from \$32.4 billion

Central 1 recorded Net financial income of \$15.2 million and Profit of \$10.6 million during the third quarter, compared to Net financial income of \$13.3 million and Profit of \$8.6 million during the same period last year. Central 1's Other income was \$28.0 million, an increase of \$2.3 million over the same period last year, while Operating expenses increased by \$1.7 million to \$30.5 million. Assets, which were \$12.9 billion as at September 30, 2014, increased \$0.5 billion from the same time in the prior year.

At quarter-end, Central 1's borrowing multiple for federal capital adequacy purposes was 10.5:1, while its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes was at 71.0%.

The world's two largest economies are on different growth trajectories as the global economy is operating below its potential growth rate. The U.S. economy is gaining momentum while China's is slowing. Growth in the third largest economy, the European Union, is hovering around zero with the exception of the United Kingdom. Japan's economy continues to struggle, stuck in a low growth trend. Most economies in the emerging markets are experiencing decelerating growth with Brazil technically in recession.

Canada's GDP growth has slowed after a strong start to the year. The recent weakness in GDP growth was largely due to contraction in mining, oil and gas extraction, utilities and wholesale trade activity. Manufacturing provided much needed support as did education and retail trade. Some easing in growth had been expected, and most economists anticipate that third quarter will be below 2.0% annualized.

The Canadian dollar fell below 90 cents against the U.S. dollar in late September and to its lowest level since mid-March earlier this year. The prospect of U.S. rates rising sooner and faster than in Canada because of the growth differential is a factor along with weaker oil and other commodity prices. Consumer price inflation held steady at 2.1%

in August due to reflecting slower growth in food, shelter and transportation costs. In the near term, declining oil prices will help to moderate inflation.

The Bank of Canada maintained its neutral policy stance, seeing the recent pickup in inflation as temporary. The Bank continues to push out its forecast for the closing of the output gap while growth remains measured. The U.S. dollar outperformed most major currencies this quarter, with the Canadian dollar depreciating over five cents versus the U.S. dollar. Credit spreads narrowed modestly over the quarter as corporate issuance was lower than in previous periods. Swap spreads widened marginally over the quarter as Canadian Banks issued debt in foreign markets.

Moderate economic growth appears to have continued in British Columbia in the third quarter. The average level of employment increased by 8,000 persons (0.4%), seasonally adjusted, while the unemployment rate averaged 6.0%, unchanged from the second quarter. The re-sale housing market continued to expand in the third quarter, with seasonally adjusted unit sales up 3.9% from the second quarter while the average sale price increased 4.1%.

Economic growth in Ontario appears to have continued in the third quarter. The average level of employment increased by 25,000 persons (0.4%), seasonally adjusted, while the unemployment rate remained around 7.3%. The re-sale housing market continued to expand, with seasonally adjusted unit sales up 4.5% from the second quarter and average sale price up 1.2%.

The B.C. system earned \$75.1 million before taxes, dividends, patronage refunds, and extraordinary items in the third quarter of 2014, down \$17.0 million, or 18.5%, from the same period in 2013. Net interest income for the third quarter of 2014 was up \$5.2 million over the previous year. However, non-interest income in the third quarter of 2014 declined \$4.6 million over the same period last year, while operating expenses increased \$17.5 million over the same period last year. Included in operating expenses are salaries and employee benefits which have increased \$7.1 million and loan loss expense have increased \$4.7 million year-over-year. Combined assets of the B.C. system rose 4.0%, year-over-year, to reach \$61.0 billion at quarter-end.

The Ontario system earned \$34.1 million before taxes, dividends, patronage refunds and extraordinary items in the third quarter, down \$8.6 million or 20.1% from the same period in 2013. Net interest income for the third quarter was up \$19.1 over the previous year. However, non-interest income in the third quarter was declined \$4.5 million over the same period last year, while operating expenses increased \$23.2 million over the same period last year. Included in operating expense are salaries and employee benefits which increased \$8.5 million and loan loss expense which increased \$7.6 million year-over-year. Combined assets of the Ontario system increased 8.4% year-over-year to reach \$35.2 billion at quarter end.

- (1) These documents include statements about the credit union system in British Columbia, referred to as the B.C. system. B.C. system financial information has been provided by the Financial Institutions Commission of British Columbia ("FICOM"), which makes available reports on information provided by British Columbia credit unions. Central 1 has no means of verifying the accuracy of information provided by credit unions to FICOM or FICOM's subsequent compilation of that information. Reference to system information should be interpreted in this context.
- (2) System Net operating income is equivalent to income from recurring operations and does not include extraordinary items, patronage dividends or income taxes.
- (3) These documents include statements about Central 1's member credit unions in Ontario, collectively referred to as the Ontario system. Ontario system financial information has been provided by the Deposit Insurance Corporation of Ontario ("DICO"), which makes available reports on information provided by Ontario credit unions. Central 1 has no means of verifying the accuracy of information provided by credit unions to DICO or DICO's subsequent compilation of that information. Reference to system information should be interpreted in this context.

Management's Discussion and Analysis as at November 24, 2014 for the period ended September 30, 2014

This portion of the Report to Members updates Central 1 Credit Union's ("Central 1") Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2013, and provides a discussion and analysis of Central 1's financial condition and results of operations for the three and nine month periods ended September 30, 2014 compared to the corresponding periods in the preceding fiscal year. The financial information included in this MD&A should be read in conjunction with Central 1's interim financial statements for the three and nine month periods ended September 30, 2014. Additional information on Central 1, including its Annual Information Form, may be found on SEDAR at www.sedar.com.

Except as otherwise indicated, financial information for Central 1 included in this MD&A has been prepared in accordance with Central 1's basis of preparation and its accounting policies as contained in Notes 2 and 3 of Central 1's interim consolidated financial statements for the three and nine month periods ended September 30, 2014 which may be found on SEDAR at www.sedar.com.

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

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

Caution Regarding Forward-Looking Statements

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

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

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

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

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

Overall Performance and Interim Financial Condition

During the third quarter of 2014, Central 1 recorded Profit of \$10.6 million or 3.3 cents per share, compared to Profit of \$8.6 million or 2.9 cents per share last year.

Net financial income was \$15.2 million, up from \$13.3 million posted in the third quarter of 2013.

Financial markets were volatile during the third quarter of 2014 as geopolitical conflicts in Eastern Europe and weaker global economic data triggered a selloff in equities and a sharp decline in government bond yields. The quarter ended on a stronger note as tensions in the Ukraine-Russia conflict eased and the U.S. Federal reserve struck a more optimistic tone on the economy and path for future interest rates at its September Federal Open Markets Committee meeting. Both U.S. Treasury and Government of Canada yields ended the quarter higher, while credit spreads narrowed marginally.

These market developments had a net favourable impact on Central 1's Net financial income for the quarter. Central 1 recorded realized gains of \$9.9 million and unrealized losses of \$2.7 million resulting in a net gain of \$7.2 million during the third quarter, compared to a net gain of \$6.0 million the previous year. Further information is included in Notes 20 and 21 of the interim consolidated financial statements.

Interest margin for the quarter was \$7.9 million, up from \$7.3 million during the three months ended September 30, 2013. The overall liquidity of Central 1's investment holdings has increased over the past year as Central 1 transitioned its investment holdings to voluntarily meet OSFI's Liquidity Adequacy Requirements and FICOM's D-SIFI's requirements. This transition has resulted in Central 1 holding a larger proportion of government-issued securities than it held a year ago as identified in Figure 2 (*page 7*).

The MRP and ELP portfolios benefited from mark-to-market gains on narrowing credit spreads on provincial debt, Canada Mortgage Bonds and NHA MBS. Additionally, the portfolios realized gains on the disposal of corporate and provincial bonds.

Other income increased from \$25.7 million in the third quarter of 2013, to \$28.0 million in the third quarter of 2014. This reflects increases in some of Central 1's business lines, offset by decreases in other business lines. Technology and Payments Services revenues were up \$2.7 million over the same period and Wholesale Financial Services income increased by \$1.6 million. These increases were partially offset by declines in equity interest in affiliates of \$0.8 million, and Insurance premiums and assessment income of \$0.8 million.

Note 22 of Central 1's interim consolidated financial statements provides details of the income earned in Central 1's various operating areas.

Quarterly operating expenses were \$30.5 million, up from \$28.8 million for the third quarter of 2013. Salaries and employee benefits expense was \$16.5 million during the quarter, an increase of \$1.5 million over the same period last year. Most of the increase compared to 2013 is due to an increase in Central 1's overall staff compliment and market based wage adjustments. Included in salaries and benefits in the current quarter was an accrual of \$0.7 million for amounts payable pursuant to a contractual agreement with one member of Central 1's executive team who left Central 1 during the third quarter.

Central 1's capital ratios remain well within statutory limits. Central 1's borrowing multiple decreased from 12.5:1 at December 31, 2013 to 10.5:1 at quarter-end. The decrease in the borrowing multiple reflects increased levels of regulatory capital, the impact of which on the borrowing multiple has been partially offset by a higher level of borrowings. At the quarter-end, Central 1's regulatory capital as a percentage of risk-weighted assets for provincial capital adequacy purposes was 71.0% compared to 47.1% at December 31, 2013. Central 1 issued subordinated notes with a par value of \$200.0 million earlier this year which are included in regulatory capital. Subsequent to the end of the third quarter, Central 1 redeemed Series 2 subordinated notes with a par value of \$150.0 million.

B.C. System

Net operating income for the third quarter was \$75.1 million, compared to \$92.1 million in the third quarter of 2013. Net interest income for the third quarter of 2014 was up \$5.2 million over the same period last year. However, Non-interest income decreased \$4.6 million, while Non-interest expenses were up \$17.5 million year-over-year. Non-interest income includes mark-to-market gains on financial instruments which were down \$6.8 million over the previous year, but that decline was partially offset by revenue increases in other business lines.

The increase in Non-interest expenses of \$17.5 million included an increase in salary and employee benefit expenses, which were up \$7.1 million over the same period in 2013. It also includes loan loss expense which increased \$4.7 million over the third quarter of 2013. The increase in loan expense primarily reflects growth in loan balances over the previous year, as loan provisions as a percentage of loans outstanding as at September 30, 2014 was lower than as at September 30, 2013.

Aggregate net loans increased by 3.9% year-over-year to reach \$52.3 billion. Asset growth was mainly in personal and commercial mortgages which grew by 2.2% and 6.9% respectively. Deposits increased 4.7% to \$54.5 billion. Deposit growth was mainly in non-registered demand and term deposits which increased 6.2% and 3.1% respectively.

The system's rate of loan delinquencies over 90 days was 0.40% of total loans at the end of September, down 10.0 basis points year-over-year. Provision for credit losses as a percentage of loans was 0.32%, down 4.0 basis points.

The system's loan loss expense ratio was 0.09% annualized in the third quarter, up from 0.06% in the third quarter last year.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 14.9% at the end of September, up from 14.5% a year ago. Aggregate liquidity of B.C. credit unions, including that held by Central 1, was 13.2% of deposit and debt liabilities, up from 13.1% a year ago.

Ontario System

Net Operating income for the third quarter was \$34.1 million, compared to \$42.7 million in the third quarter of 2013. Net interest income for the third quarter of 2014 was up \$19.1 million over the same period last year. Loan growth exceeded deposit growth over the past year and the average yield on loans improved relative to the cost of funds. However, Non-interest income decreased \$4.5 million, while Non-interest expenses were up \$23.2 million. Non-interest income includes securitization fees which declined over the year.

The increase in Non-interest expense included an increase in salary and employee benefit expense, which were up \$8.5 million over the same period in 2014. It also includes loan loss expense which increased \$7.6 million over the third quarter of 2013. The increase in loan expense primarily reflects growth in loan balances over the previous year, as loan provisions as a percentage of loans outstanding as at September 30, 2014 was unchanged from a year ago.

Non-interest expenses increased \$23.2 million, led by salaries and benefits, loan losses, administration, advertising and communications, and occupancy. Net interest income increased \$19.1 million, as net loans and securitizations increased by 10.1% while gross margin increased five basis points to 2.34% annualized. Non-interest income decreased \$4.5 million, as lower income from securitization outweighed higher income from service charges, mutual fund services, loan fees and other items.

Ontario system net loans increased 10.1% year-over-year to reach \$30.5 billion. Deposits climbed 6.6% to \$29.4 billion. Asset growth was mainly in residential mortgages, up by 11.7% from a year ago, and commercial mortgages and loans which increased 9.0%. Liability growth was mainly in demand, term and registered deposits, up 6.6% and borrowings, up 29.8%.

The system's rate of loan delinquencies over 90 days was 0.45% of total loans at the end of the third quarter, down 16 basis points year-over-year. Provision for credit losses as a percentage of loans was 0.37%, unchanged from a year earlier. The system's loan loss expense ratio was 0.16% annualized in the third quarter, up nine basis points from the third quarter last year.

The Ontario system's regulatory risk-weighted capital ratio was 13.0% at the end of the third quarter, down 10 basis points from a year earlier (Class 2 credit unions only). The regulatory liquidity ratio for the Ontario system, including that held by Central 1 was 10.4% as of September 30, down 84 basis points from a year earlier.

Figure 1 - Selected Financial Information

	For the Three Months Ended		
	September 30 2014	September 30 2013	Change
Earnings (\$ millions)			
Net financial income	\$ 15.2	\$ 13.3	\$ 1.9
Net financial and other income	43.2	39.1	4.1
Profit for the period	10.6	8.6	2.0
Weighted average shares outstanding (<i>millions</i>)	316.0	293.5	22.5
Earnings per Share (cents)			
Basic	3.3	2.9	0.4
Fully diluted	3.3	2.9	0.4
Return on			
Average assets	0.3%	0.3%	0.0%
Average equity	4.6%	4.1%	0.5%
Balance Sheet Data (\$ billions)			
Total assets	\$ 12.9	\$ 12.4	\$ 0.5
Average assets	13.3	12.6	0.7
Long term financial liabilities	4.6	5.0	(0.4)
Regulatory Capital Ratios			
Tier 1 capital ratio	45.4%	34.4%	11.0%
Total capital ratio	71.0%	43.9%	27.1%
Borrowing multiple (times)	10.5	12.6	(2.1)
Share Information			
Outstanding \$1 par value Shares (<i>\$ thousands</i>)			
Class "A" - credit unions	315,907	293,428	22,479
Class "B" - cooperatives	5	5	-
Class "C" - other	7	7	-
Outstanding \$0.01 par value Shares with redemption value of \$100 (<i>\$ thousands</i>)			
Class "E" - credit unions	32	32	-
Number of shares outstanding (<i>thousands</i>)			
Class "A" - credit unions	315,907	293,428	22,479
Class "B" - cooperatives	5	5	-
Class "C" - other	7	7	-
Class "E" - credit unions	3,158	3,159	(1)
Dividends per share (<i>cents</i>)			
Class "A"	1.79	1.08	0.71
Class "B" & "C"	0.34	0.35	(0.01)
Class "E"	-	-	-

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

Total Revenues

Net Financial Income

Central 1 recorded Net financial income of \$15.2 million for the quarter (*Figure 1, page 7*), compared with Net financial income of \$13.3 million for the same period last year.

Interest margin increased from \$7.3 million in the third quarter of last year to \$7.9 million this quarter as average assets increased from \$12.6 billion to \$13.3 billion. As a percentage of average assets, Interest margin increased from 23.0 basis points in the third quarter of 2013 to 23.6 basis points in the third quarter of 2014.

During the quarter, Central 1 recorded realized gains of \$9.9 million and unrealized loss of \$2.7 million resulting in a net gain of \$7.2 million, compared to a net gain of \$6.0 million in the third quarter of 2013. On a net basis, Central recorded mark-to-market losses on securities which includes the unwinding of unrealized gains on certain securities disposed during the quarter. Trading deposits and derivatives were positively impacted by the increase in interest rates in the quarter.

Other Income

Other income of \$28.0 million for the quarter was up from \$25.7 million reported during the third quarter of 2013. The overall increase of \$2.3 million in the third quarter of 2014 reflects positive and negative variances in certain business lines. Technology and Payments Services revenues increased \$2.7 million during quarter, and Wholesale Financial Services income increased by \$1.6 million. These positive variances were partially offset by a decline in equity interest in affiliates of \$0.8 million and in Insurance premiums and assessment income of \$0.8 million.

Within Technology and Payments services, paper and electronic payments processing fees increased \$1.2 million over the third quarter of 2013. The increase is due to increased processing fees on paper payments transactions and higher volumes on electronic payments transactions. Direct banking fees also increased from \$5.6 million in the third quarter of 2013 to \$7.2 million in the third quarter of 2014. The increase is attributed to higher development and maintenance fees.

The decline in Insurance premiums and assessment income reflects the transfer of the Master Insurance Program ("MIP") that was previously administered on behalf of Ontario Credit Unions to The CUMIS Group Limited ("CUMIS") on July 1, 2014. Transferring the MIP to CUMIS will result in lower insurance income and expense in future periods.

Operating Expenses

Operating expenses increased from \$28.8 million during the third quarter of 2013 to \$30.5 million during the third quarter of 2014. Salaries and employee benefits expense increased by \$1.5 million, from \$15.0 million in the third quarter of 2013 to \$16.5 million during the current quarter. Included in Salaries and employee benefits expense in the current quarter was an accrual of \$0.7 million for amounts payable pursuant to a contractual agreement with one member of Central 1's executive team who left Central 1 during the third quarter. Adjusting for the impact of the restructuring accrual in the quarter, Salary and employee benefits expense was \$15.8 million, up \$0.8 million from \$15.0 million in the third quarter of 2013 reflecting an increased staff compliment and an increase in market based wages.

Other administrative expenses decreased from \$12.3 million in the third quarter of 2013 to \$11.4 million during the same period in 2014. Included in Other administrative expenses are cost of sales and services and professional fees. The cost of sales and services decreased from \$6.5 million in the third quarter of 2013 to \$6.0 million in the current quarter. Insurance claim expense and insurance premiums were down \$1.0 million reflecting the transfer of the MIP to CUMIS effective July 1, 2014. Professional fees decreased from \$2.1 million during the third quarter of 2013 to \$1.8 million during the current quarter.

Income Taxes

Central 1's combined federal and provincial statutory tax rate is 26.1%. Central 1's effective tax rate for the quarter was 16.7%, unchanged from the third quarter of 2013.

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

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

Statement of Financial Position

Cash and Securities

Cash and securities were \$11.4 billion at period end. Of this amount, \$0.1 billion represents reinvestment assets which are designated to offset obligations under the Canada Mortgage Bond ("CMB") program. The remaining balance of \$11.3 billion (*Figure 2, page 10*) comprises the MRP and ELP investment portfolios and represents 88.3% of Central 1's total assets, excluding reinvestment assets, compared to \$9.9 billion and 83.2% a year ago.

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

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

FICOM also requires that the weighted average duration of the securities in the MRP be no greater than 1.0 and the use of derivatives in the MRP is prohibited. As these requirements have recently come into effect, Central 1 has been granted a transition period which ends in January 1, 2016 to bring the portfolio into compliance with these requirements.

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

	30-Sep-14			30-Sep-13		31-Dec-13	
	MRP	ELP	TOTAL	TOTAL	TOTAL		
Government & Guarantees	\$ 5,770.6	\$ 2,148.5	\$ 7,919.1	\$ 4,917.4	\$ 5,582.6		
Cash	-	123.6	123.6	53.4	74.2		
	<u>5,770.6</u>	<u>2,272.1</u>	<u>8,042.7</u>	<u>4,970.8</u>	<u>5,656.8</u>		
	84.3%	51.4%	71.4%	50.1%	56.8%		
Corporate & Financial Institutions AA or Greater *	1,073.4	1,772.3	2,845.7	4,721.5	4,099.2		
	15.7%	40.1%	25.3%	47.6%	41.1%		
Other	-	377.2	377.2	234.5	207.0		
	0.1%	8.5%	3.3%	2.3%	2.1%		
Total	<u>\$ 6,844.0</u>	<u>\$ 4,421.6</u>	<u>\$ 11,265.6</u>	<u>\$ 9,926.8</u>	<u>\$ 9,963.0</u>		
	100.0%	100.0%	100.0%	100.0%	100.0%		

* The credit ratings represent investment grade ratings provided by DBRS

Loans

Total loan balances, including securities acquired under reverse repurchase agreements, decreased to \$0.9 billion from \$1.3 billion at the same time last year. Amounts lent under reverse repurchase agreements relate to activities performed by Central 1's Treasury Services department within its Wholesale Financial Services area, and are excluded from the table below. Amounts advanced under Central 1's credit union and commercial loan facilities are included in Figure 3.

Figure 3 - Loans (\$ millions)

	30-Sep-14	30-Sep-13	31-Dec-13
Loans to credit unions	\$ 562.3	\$ 1,032.6	\$ 879.8
Non credit union loan facilities			
Syndicated commercial loans	188.0	170.4	168.2
Non syndicated commercial loans	1.0	16.4	16.4
Other loans	43.2	12.5	12.2
Mortgage pools	11.9	14.1	13.6
	<u>244.1</u>	<u>213.4</u>	<u>210.4</u>
	<u>\$ 806.4</u>	<u>\$ 1,246.0</u>	<u>\$ 1,090.2</u>

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

Loans to member credit unions decreased to \$0.6 billion from \$1.0 billion at the same time last year. The amounts advanced under Central 1's non-credit union loan facilities as at September 30, 2014 was \$244.1 million, up from \$213.4 million in 2013, of which, commercial lending amounted to \$189.0 million as at September 30, 2014, compared to \$186.8 million a year ago. These loans represented 21.0% of Central 1's total loan portfolio at quarter-end, up from 14.9% a year ago. Meanwhile, securities acquired under reverse repurchase agreements saw an increase from \$11.4 million to \$100.1 million as at September 30, 2014.

Borrowings

Figure 4 summarizes Central 1's total Borrowings as at September 30, 2014.

Figure 4 - Borrowings (\$ millions)

Debt securities issued at amortized cost	30-Sep-14	30-Sep-13	31-Dec-13
Commercial Paper issued	\$ 583.2	\$ 626.0	\$ 527.2
Medium term notes issued	870.9	269.7	570.3
	<u>1,454.1</u>	<u>895.7</u>	<u>1,097.5</u>
Deposits and Trading Liabilities by type			
Mandatory Deposits	6,247.3	5,865.4	5,971.2
Non-Mandatory Deposits	1,833.5	1,997.1	1,879.2
Deposits from member credit unions	<u>8,080.8</u>	<u>7,862.5</u>	<u>7,850.4</u>
Deposits from non member credit unions	750.3	469.4	716.1
	<u>8,831.1</u>	<u>8,331.9</u>	<u>8,566.5</u>
Securities under repurchase agreements	173.2	101.4	106.7
Total Borrowings	<u>\$ 10,458.4</u>	<u>\$ 9,329.0</u>	<u>\$ 9,770.7</u>

Total Debt securities outstanding as at September 30, 2014 were \$1.5 billion, which is an increase of \$0.6 billion from a year ago. Of the total amount outstanding as at September 30, 2014, \$0.9 billion was borrowed under Central 1's Medium Term Note facility and the remainder was borrowed through Central 1's Commercial Paper facility.

In aggregate, deposits from Central 1's member credit unions were \$8.1 billion as at September 30, 2014, up from \$7.9 billion from a year ago. Credit union mandatory deposits grew by \$0.4 billion over the year, to reach \$6.2 billion as at September 30, 2014, reflecting the growth of both the B.C. and the Ontario credit union systems during the same period. Excess deposits from credit unions were \$1.8 billion as at September 30, 2014, a decrease of \$0.2 billion from the same period last year.

Securitization Activities

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

Member credit unions have securitized these loans either indirectly or directly through Central 1 by creating NHA MBS.

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

Direct securitization transactions are accounted for on balance sheet while indirect securitizations are off balance sheet. Details of the balances included in the statement of financial position as at period end can be found in Notes 7, 11 and 16 of the interim consolidated financial statements.

Equity

The Statement of Changes in Equity summarizes the changes in Equity for the nine month period ended September 30, 2014. Central 1's Equity increased by \$30.2 million during the period to \$906.5 million. The increase in Equity can be attributed to the growth in Retained earnings and in the fair value reserve during the period. This is compared to an increase in Equity of \$24.2 million during the same period last year.

Summary of Quarterly Results

Central 1's financial results for each of the last eight most recently completed quarters are summarized in the accompanying table (*Figure 5, page 13*).

Due to an extended period of low interest rates and reduced risk exposures, Central 1's net interest margin has declined over the past few years. Central 1 has transitioned its investment portfolio to voluntarily meet the criteria in OSFI's Liquidity Adequacy Requirements. Central 1 consulted with its member Credit Unions regarding implementing FICOM's duration and derivative restrictions on the MRP, planning and discussions are ongoing.

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

Third Quarter 2014 Compared to Second Quarter 2014

Other Income

Other income decreased from \$31.2 million in the second quarter of 2014 to \$28.0 million during the current quarter. The decrease of \$3.2 million reflects declines in equity interest in affiliates of \$1.6 million, Insurance premiums and assessment income of \$1.1 million and Wholesale Financial Services income of \$1.1 million. These negative variances were partially offset by an increase in Technology and Payments Services income of \$1.3 million over the prior quarter.

The transfer of the MIP business to CUMIS has resulted in lower insurance assessment revenues which are down \$1.0 million over the same period last year. Wholesale Financial Services income declined \$1.1 million reflecting decreased Foreign exchange income. Central 1's Technology and Payments Services revenues increased from \$17.3 million in the second quarter of 2014 to \$18.6 million in the third quarter of 2014. The increase can be attributed to higher processing fees on the paper payments processing area and to higher volumes within the electronic payments processing area.

Operating Expenses

Operating expenses declined from \$33.6 million in the second quarter of 2014 previous quarter to \$30.5 million during the current quarter. Salaries and employee benefits expense decreased from \$18.3 million in the previous quarter to \$16.5 million in the third quarter. Included in Salaries and employee benefits expense in the current quarter was an accrual of \$0.7 million pursuant to a contractual agreement with one member of Central1's executive team who left

during the quarter. The previous quarter included an accrual of \$1.8 million pursuant to a contractual agreement with one member of Central 1's executive management team who announced that they would be leaving Central 1. After adjusting for these non-recurring charges, Salaries and employee benefits expense in the current quarter was \$15.8 million, down \$0.7 million from \$16.5 million in the previous quarter. This decline reflects a reduction of statutory deductions and a decrease in employee training activities.

Cost of sales and services reported in the third quarter was \$6.0 million compared to \$7.0 million in the second quarter of the year. The transfer of the MIP to CUMIS on July 1, 2014 has resulted in a reduction in cost of sales and services of \$0.9 million compared to the previous quarter. Additionally, marketing program costs related to specific marketing programs and events were \$0.5 million lower in the third quarter of 2014. These declines in cost of sales and services were offset by increased expenses in other business lines.

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

	2014/2013 Period Ended				2013/2012 Period Ended			
	31-Dec-13	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-12	31-Mar-13	30-Jun-13	30-Sep-13
Total interest income	\$ 52,898	\$ 48,873	\$ 47,131	\$ 51,114	\$ 73,033	\$ 64,398	\$ 62,001	\$ 54,159
Total interest expense	42,494	41,383	40,299	43,205	63,901	56,611	54,200	46,851
Interest margin	10,404	7,490	6,832	7,909	9,132	7,787	7,801	7,308
Gain (loss) on disposal of financial instruments	5,057	15,113	(21,252)	9,957	1,632	8,099	16,906	(3,910)
Changes in fair value of financial instruments	4,721	4,934	33,572	(2,716)	3,768	13,670	1,028	9,871
Recovery of credit losses	264	47	186	24	1,995	745	45	149
Other income	34,099	27,562	31,248	28,029	28,250	27,424	28,583	25,723
Net financial and other income	54,545	55,146	50,586	43,203	44,777	57,725	54,363	39,141
Operating expenses	(33,083)	(31,309)	(33,642)	(30,496)	(30,470)	(33,119)	(31,748)	(28,826)
Income taxes	(2,095)	(3,255)	(2,277)	(2,124)	(1,777)	(3,167)	(3,559)	(1,727)
Profit for the period	<u>\$ 19,367</u>	<u>\$ 20,582</u>	<u>\$ 14,667</u>	<u>\$ 10,583</u>	<u>\$ 12,530</u>	<u>\$ 21,439</u>	<u>\$ 19,056</u>	<u>\$ 8,588</u>
Weighted average shares outstanding (<i>millions</i>)	298.4	307.2	311.6	316.0	287.6	291.4	293.3	293.5
Earnings per share								
Basic (<i>cents</i>)	6.5	6.7	4.7	3.3	4.4	7.4	6.5	2.9
Diluted (<i>cents</i>)	6.5	6.7	4.7	3.3	4.4	7.4	6.5	2.9

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

Nine Months Ended September 30 Compared to Prior Year to Date

Other Income

Other income for the nine months ended September 30, 2014 was \$86.8 million, up from \$81.7 million during the same period in 2013. Processing fees earned by Central 1's Technology and Payments Services group increased from \$47.7 million in 2013 to \$52.3 million in 2014. The increase reflects higher processing fees associated with the paper payments transactions and increased processing volumes in electronic payments.

Income from equity interest in affiliates declined from \$4.7 million in 2013 to \$4.1 million in 2014 due to weaker financial performance. Additionally, insurance premiums and assessments income declined from \$3.8 million in the first nine months of 2013 to \$3.4 million in 2014, reflecting the transfer of the MIP in Ontario to CUMIS.

Treasury Services and foreign exchange income within Wholesale Financial Services increased \$3.0 million from the \$2.2 million recorded during the first nine months of 2013. Part of the increase can be attributed to stronger Foreign exchange income. Included in Other income within the Wholesale Financial Services area, are dividends received from entities affiliated with the credit union system which declined from \$1.1 million in 2013 to \$0.5 million in 2014.

Income from the Provincial Advertising Assessment has decreased from \$1.3 million in the first nine months of 2013 to \$0.7 million in the first nine months of 2014. This is primarily due to timing of campaign activities. Overall Trade and Other Services income has declined from \$7.9 million for the first nine months of 2013 to \$7.0 million in the same period in 2014.

Operating Expenses

Operating expenses for the first nine months in 2014 of \$95.4 million were up from the \$93.7 million of Operating expenses in the first nine months of 2013. Salaries and employee benefit expenses of \$52.7 million in the current year were up from \$51.5 million in 2013. During the first nine months of the current year, Central 1 recorded charges of \$3.9 million related to amounts payable under contractual agreements to members of Central 1's executive team who have left or announced they were leaving Central 1.

During the first nine months of 2013, Central 1 incurred a restructuring charge of \$4.9 million related to the transfer of Ontario payments operations and the accrual of amounts payable pursuant to contractual agreements with two members of Central 1's EMT who announced they were leaving the organization during the first quarter of 2013. After adjusting for the one time impact of these costs, overall employee salaries and employee benefits increased from \$46.6 million in 2013 to \$48.8 million in 2014. The increase in salaries and benefits expense in 2014 reflects an increased staff compliment and an increase in market based wages.

Cost of sales and services were down \$1.1 million from \$20.8 million a year ago to \$19.7 million in 2014. The decrease is partly attributed to lower costs related to the Province Wide Advertising campaign and specific marketing programs which in aggregate were \$1.0 million lower than the same period in 2013. Insurance claims and premiums expenses declined by \$1.3 million over the same period a year ago due to the transfer of the MIP program to CUMIS. These positive variances were partially offset by higher cost of sales in Technology and Payment Services, which were up \$1.0 million primarily due to increased processing costs related to increased payments volumes and costs associated with the launch of new Member Direct services

Professional fees were down by \$0.9 million from \$5.8 million in 2013 to \$4.9 million in 2014. Professional fees related to the implementation of enhanced risk oversight capability declined over the previous year, but this decline was partially offset by costs incurred related to the review of Central 1's governance structure.

Results by Operating Segment

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

Figure 6 - Results by segment

	For the nine months ended September 30, 2014				
	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery for credit losses	\$ 24,639	\$ 43,764	\$ 228	\$ (6,535)	\$ 62,096
Other income	(200)	54,588	16,453	15,998	86,839
Net financial and other income	24,439	98,352	16,681	9,463	148,935
Operating expenses	5,521	53,772	19,388	16,766	95,447
Profit (loss) before income taxes	18,918	44,580	(2,707)	(7,303)	53,488
Income taxes (recoveries)	2,951	6,945	(422)	(1,818)	7,656
Profit (loss) for the period	\$ 15,967	\$ 37,635	\$ (2,285)	\$ (5,485)	\$ 45,832
Total assets at September 30, 2014	\$ 6,714,270	\$ 5,918,359	\$ 20,628	\$ 230,873	\$ 12,884,130
Total liabilities at September 30, 2014	\$ 6,302,890	\$ 5,451,627	\$ 1,498	\$ 221,614	\$ 11,977,629
Total equity at September 30, 2014	\$ 411,380	\$ 466,732	\$ 19,130	\$ 9,259	\$ 906,501

Results by segment

	For the three months ended September 30, 2014				
	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery for credit losses	\$ 8,062	\$ 10,043	\$ 58	\$ (2,989)	\$ 15,174
Other income	(476)	19,413	4,730	4,362	28,029
Net financial and other income	7,586	29,456	4,788	1,373	43,203
Operating expenses	1,902	18,525	5,468	4,601	30,496
Profit (loss) before income taxes	5,684	10,931	(680)	(3,228)	12,707
Income taxes (recoveries)	887	1,823	(120)	(466)	2,124
Profit (loss) for the period	\$ 4,797	\$ 9,108	\$ (560)	\$ (2,762)	\$ 10,583

Results by segment

	For the three months ended June 30, 2014				
	Mandatory Reserve Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery for credit losses	\$ 2,658	\$ 18,821	\$ 61	\$ (2,202)	\$ 19,338
Other income	270	18,027	5,955	6,996	31,248
Net financial and other income	2,928	36,848	6,016	4,794	50,586
Operating expenses	1,902	17,843	7,087	6,810	33,642
Profit (loss) before income taxes	1,026	19,005	(1,071)	(2,016)	16,944
Income taxes (recoveries)	160	2,883	(159)	(607)	2,277
Profit (loss) for the period	\$ 866	\$ 16,122	\$ (912)	\$ (1,409)	\$ 14,667

As indicated in Note 25 of the interim consolidated financial statements, Central 1's operations and activities are organized around three key business segments: MRP, Wholesale Financial Services and Trade Services. All other operating activities, including internal support functions, have been included in "Other" in Figure 6 (page 15). The Trade Services operating segment delivers operational support, strategies consulting and research services tailored to the needs of member credit unions. Net profit after tax for the three months ended September 30, 2014 is \$10.6 million as compared to \$14.7 million for the quarter ended June 30, 2014.

For the three months ended September 30, 2014, the MRP and Wholesale Financial Services segments had a combined profit of \$13.9 million as compared to \$17.0 million for the three months ended June 30, 2014. Net financial income including recovery for credit losses declined from \$21.5 million in the second quarter of 2014 to \$18.1 million in the third quarter of 2014. Other income increased from \$18.9 million during the current quarter as compared with \$18.3 million to the previous quarter. Operating expenses increased from \$19.7 million during the second quarter to \$20.4 million during the third quarter.

Central 1's Trade Services segment had a loss of \$0.6 million in the third quarter compared to a loss of \$0.9 million in the second quarter. Central 1's "Other" segment recorded a loss of \$2.8 million during the current quarter as compared with \$1.4 million in the second quarter. Included in other operating areas was equity income from Central 1's affiliates and dividends from entities affiliated with the credit union system which, in aggregate, decreased \$2.0 million. Also included in the "Other" segment were lower restructuring charges of \$0.7 million during the third quarter of 2014 related to the departure of certain members of Central 1's executive team.

Capital Resources

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

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

Central 1's consolidated target range for its borrowing multiple is 12.0:1 to 14.0:1 (previously 14.0:1 to 15.0:1) and its level of Total Regulatory Capital as a percentage of Risk Weighted Assets is targeted to be in excess of 15.0%. This is to ensure that Central 1 has the capacity to absorb sudden increases in member deposits, an increase in external borrowings to meet member demand for loans from Central 1, and market volatility.

Figure 7a - Capital Targets

	30-Sep-14	30-Sep-13	31-Dec-13	Target	Regulatory Requirement
Total Regulatory Capital as % of Risk-Weighted Assets	71.0%	43.9%	47.1%	> 15%	≥ 10%
Borrowing Multiple - Consolidated	10.5:1	12.6:1	12.5:1	12.0:1 - 14.0:1	≤ 20.0:1
Borrowing Multiple - MRP	15.5:1	N/A	15.4:1	15.0:1 - 15.5:1	≤ 16.0:1
Borrowing Multiple - ELP	10.6:1	N/A	10.9:1	10.0:1 - 12.0:1	≤ 14.0:1

Central 1's borrowing multiple for federal capital adequacy purposes was 10.5:1, down from 12.5:1 at December 2013 and its percentage of regulatory capital to risk weighted assets for provincial capital adequacy purposes increased from 47.1% to 71.0% during the same period. The increase in regulatory capital is primarily due to the increase in capital base and decrease in risk-weighted assets. The decrease in the borrowing multiple reflects Central 1's issuance of subordinated notes with par value of \$200 million on April 25, 2014, as well as an increase in Retained earnings. Subsequent to the end of the quarter, Central 1 redeemed Series 2 subordinated notes with a par value of \$150.0 million. Note 17 of Interim Consolidated Financial Statements included details of Central 1's subordinated liabilities.

As at September 30, 2014, the borrowing multiple for Central 1's MRP business line was 15.5:1, which is in compliance with FICOM requirement of 16.0:1. Central 1 has regularly scheduled semi-annual share calls in May and November of each year intended to increase its regulatory capital to reflect growth in Mandatory deposits.

Figure 7b - Capital Position (\$ thousands)

	30-Sep-14	30-Sep-13	31-Dec-13
Share Capital	\$ 315,951	\$ 293,472	\$ 307,185
Contributed Surplus	87,901	87,901	87,901
Retained Earnings	462,368	417,742	433,171
Less: Adjustments	(4,285)	(4,529)	(4,285)
Tier 1 Capital	861,935	794,586	823,972
Subordinated Debt	368,000	168,000	168,000
Add: Adjustments	4,285	4,529	4,285
Tier 2 Capital	372,285	172,529	172,285
Total Capital	1,234,220	967,115	996,257
Statutory Capital Adjustments	(156,782)	(149,848)	(151,827)
Capital Base (Federal)	\$ 1,077,438	\$ 817,267	\$ 844,430
Capital Base (Provincial)	\$ 1,072,532	\$ 814,416	\$ 837,617

Central 1's regulatory capital base for federal purposes is calculated in Figure 7 (page 17). As at September 30, 2014, Central 1's federal Tier 1 Capital was \$861.9 million and Total Capital before deductions was \$1,234.2 million, compared to \$794.6 million and \$967.1 million, respectively, a year earlier. The increase in the Total Capital before deductions over the past year includes subordinated debt issued in 2014 and the growth in Central 1's Retained earnings. In determining regulatory capital, adjustments are required to amounts reflected in Central 1's consolidated statement of financial position. These statutory capital adjustments mainly include Investments in entities where Central 1 has a substantial investment in ownership interest but does not control them. The calculation of Central 1's capital base for provincial purposes is similar to the federal calculation.

Risk Management

This portion of the Report to Members should be read in conjunction with the Risk Management section of Central 1's MD&A for the year ended December 31, 2013.

Liquidity Risk

Liquidity risk is the risk of being unable to obtain funds at a reasonable price or within a reasonable time period to meet obligations as they come due. As manager of its own liquidity and that of its member credit unions, Central 1 is responsible for ensuring that managed assets are available to meet its own needs, together with those of the system. Central 1's liquidity risk has not changed significantly during the quarter.

Market Risk

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

Figure 8 - Market Risk (\$ thousands)

	<u>MRP</u>	<u>ELP & Other</u>	<u>Total</u>
DV01 Exposure	\$ 110.0	\$ 113.1	\$ 223.2
Portfolio Duration	1.60	1.69	1.63
Foreign Exchange Exposure	\$ 3,100.0	\$ 650.0	\$ 3,750.0
Short Sales	nil	\$ 116,000.0	\$ 116,000.0

As at September 30, 2014, the dollar value of a basis value point ("DV01") exposure for MRP and ELP are \$110 thousand and \$113 thousand, respectively. This means that 1 basis point increase in rates will negatively impact the fair value of MRP and ELP by this amount or will have an aggregate negative impact to Central 1 by approximately \$223 thousand. These exposures are within Central 1's risk appetite of \$300 thousand and \$400 thousand for MRP and ELP, respectively.

As at September 30, 2014, the portfolio duration of MRP is 1.60. Central 1 is currently transitioning to lower this duration to 1 year or less by January 1, 2016 to adhere to regulatory requirements. As at September 30, 2014, the portfolio duration of ELP is 1.69 and is within Central 1's risk appetite.

Central 1 offers USD-denominated deposits to its member credit unions and also enters into USD-denominated derivatives with them. These transactions result to foreign exchange exposure to Central 1. As at September 30, 2014, the aggregate foreign exchange exposure is \$3.75 million which is within Central 1's risk appetite of \$20 million.

Central 1 also actively participates in a securitization program. To hedge some of its exposures in the securitization program, Central 1 sells short bonds issued by the Government of Canada. As at September 30, 2014, the outstanding short positions on bonds is at approximately \$116 million which is also within Central 1's risk appetite of \$300 million.

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

Foreign Exchange Rate Risk

Foreign exchange rate risk is the risk of potential adverse impact on Central 1's earnings and economic value due to currency rate movements and volatility. Central 1 has assets and liabilities denominated in several major currencies and buys foreign currencies from, and sells these currencies to, its member credit unions. The risk associated with changing foreign currency values is managed by applying stringent limits on the amounts (short or long positions) that can be maintained in the various currencies, and by utilizing derivative exchange contracts to lessen the impact of on-balance sheet positions.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a debtor, for any reason, to fully honour financial or contractual obligations. Credit risk arises from traditional lending and investment activity and from settling payments between Central 1 and its counterparties associated with both on- and off-balance sheet financial instruments.

The composition of Central 1's securities portfolio has changed from year-end as indicated in the Cash and Securities section (*Figure 3, page 11*), to voluntarily comply with OSFI's Liquidity Adequacy Requirements. This change has resulted in Central 1 holding a larger proportion of government-issued securities, and a smaller proportion of corporate securities. Most of the portfolio is invested in Canadian federal and provincial government and Canadian senior bank debt. Details of Central 1's loan portfolio are found in Note 9 of the interim consolidated financial statements. Credit risk associated with Central 1's credit union lending portfolio has been assessed by management as low. Member credit union loans are secured and are granted based on quantitative and qualitative credit assessments. Central 1 has not previously experienced losses on any of these loans.

Insurance Risk

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

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

Operational Risk

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

Central 1 controls and manages this type of risk through a comprehensive set of procedures and policies that are basic to its operating infrastructure. Central 1 employs effective audited internal controls that are independently tested and evaluated. In addition, Central 1 follows strict segregation of duties, authority delegation and oversight and timely and informative managerial reporting.

Central 1's Accounting Policies and Estimates

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

Effective January 1, 2014, Central 1 recognizes regular way purchases and sales of financial assets on the trade date, whereas they were previously recognized on the settlement date. There were no adjustments to Central 1's statement of financial position as at December 31, 2013 as a result of this change in accounting policy. The impact on Central 1's statement of financial position as at September 30, 2013 was to increase assets and liabilities by \$172.2 million and \$171.4 million respectively, as a result of this change in accounting policy.

Note 3 of Central 1's interim consolidated financial statements provides additional information on the impact of changes in accounting policy on Central 1's consolidated financial statements.

Critical Accounting Estimates

In preparing the interim consolidated financial statements, management is required to make estimates and assumptions based on information as of the date of the interim consolidated financial statements. Note 2 of the interim consolidated financial statements contains information on these areas and should be read in conjunction with Note 4 of Central 1's annual consolidated financial statements for the year ended December 31, 2013.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this Management's Discussion and Analysis, management evaluated Central 1's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, management has concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Central 1's interim filings, as such term is defined under the Canadian Securities Administrators' National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

Central 1 evaluated the design of its internal controls and procedures over financial reporting as defined under National Instrument 52-109 for the quarter ended September 30, 2014. Based on that evaluation, management has concluded that the design of its internal monitoring controls and procedures over financial reporting was effective. There has been no change in Central 1's design of internal controls and procedures over financial reporting that has materially affected, or is reasonably likely to materially affect, Central 1's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

Central 1 Credit Union
Interim Consolidated Statements of Financial Position
Unaudited

		(Thousands of dollars)			
	Notes	September 30 2014	September 30 2013 (Note 3)	December 31 2013	January 1 2013 (Note 3)
Assets					
Cash		\$ 123,552	\$ 53,420	\$ 74,153	\$ 90,238
Deposits with regulated financial institutions	5	5,668	6,191	7,132	106,275
Pledged trading assets	6	89,999	64,657	64,443	135,572
Reinvestment assets under the CMB and IMPP Programs	7	139,795	539,083	306,914	1,652,244
Non-pledged trading assets	6	6,109,823	2,983,510	4,312,413	2,678,954
Derivative assets	8	35,195	28,029	29,383	34,018
Loans	9	906,893	1,259,674	1,157,972	2,069,521
Investment securities	10	4,942,236	6,825,175	5,553,354	6,393,659
Secured loans to members	11	12,889	294,887	229,620	561,511
Current tax assets		5,073	7,986	4,338	-
Property and equipment		16,913	15,810	16,111	17,303
Intangible assets		14,738	9,510	12,198	6,412
Deferred tax assets		7,778	6,170	6,371	6,389
Investment in affiliates		121,749	111,886	120,107	110,170
Other assets	12	351,829	169,065	299,933	294,231
		<u>\$ 12,884,130</u>	<u>\$ 12,375,053</u>	<u>\$ 12,194,442</u>	<u>\$ 14,156,497</u>
Liabilities					
Deposits designated as trading	13	\$ 4,960,148	\$ 2,426,116	\$ 3,398,893	\$ 2,286,078
Derivative liabilities	8	107,167	153,788	150,645	216,042
Debt securities issued	14	1,454,100	895,723	1,097,509	1,170,804
Deposits	15	3,870,916	5,905,768	5,167,617	6,564,336
Obligations under the CMB and IMPP Programs	16	505,436	1,133,384	831,762	2,259,992
Subordinated liabilities	17	372,026	170,555	169,139	168,859
Provisions		3,373	5,094	3,991	5,280
Securities under repurchase agreements		173,232	101,448	106,706	201,433
Current tax liabilities		-	-	-	2,580
Deferred tax liabilities		5,165	4,020	4,699	2,929
Other liabilities	18	526,066	747,852	387,143	471,074
		<u>11,977,629</u>	<u>11,543,748</u>	<u>11,318,104</u>	<u>13,349,407</u>
Equity					
Share capital	19	315,951	293,472	307,185	290,299
Contributed surplus		87,901	87,901	87,901	87,901
Retained earnings		462,368	418,523	433,171	374,841
Accumulated other comprehensive income		26,703	19,067	35,078	39,459
Reserves		3,701	2,517	3,130	4,985
		<u>896,624</u>	<u>821,480</u>	<u>866,465</u>	<u>797,485</u>
Total equity attributable to members of Central 1		896,624	821,480	866,465	797,485
Non-controlling interest		9,877	9,825	9,873	9,605
		<u>906,501</u>	<u>831,305</u>	<u>876,338</u>	<u>807,090</u>
		<u>\$ 12,884,130</u>	<u>\$ 12,375,053</u>	<u>\$ 12,194,442</u>	<u>\$ 14,156,497</u>
Guarantees, commitments, and contingencies	26				

Approved by the Directors:

"Terry Enns"
Terry Enns, Chairperson

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

See accompanying notes to the interim consolidated financial statements

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

	Notes	(Thousands of dollars)		(Thousands of dollars)	
		For the three months ended		For the nine months ended	
		September 30 2014	September 30 2013	September 30 2014	September 30 2013
Interest income					
Securities		\$ 44,550	\$ 40,020	\$ 122,477	\$ 117,984
Deposits with regulated financial institutions		29	61	100	230
Loans		5,759	6,997	19,178	23,297
Secured loans and reinvestment assets		776	7,081	5,363	39,047
		<u>51,114</u>	<u>54,159</u>	<u>147,118</u>	<u>180,558</u>
Interest expense					
Debt securities issued		6,153	3,866	16,095	13,597
Deposits		30,138	30,606	89,433	92,171
Obligations under the CMB and IMPP Programs		3,664	10,730	12,251	46,998
Subordinated liabilities		3,250	1,649	7,108	4,896
		<u>43,205</u>	<u>46,851</u>	<u>124,887</u>	<u>157,662</u>
Interest margin		7,909	7,308	22,231	22,896
Gain (loss) on disposal of financial instruments	20	9,957	(3,910)	3,818	21,095
Changes in fair value of financial instruments	21	(2,716)	9,871	35,790	24,569
Net financial income		15,150	13,269	61,839	68,560
Recovery for credit losses	9	(24)	(149)	(257)	(939)
		15,174	13,418	62,096	69,499
Other income	22	28,029	25,723	86,839	81,730
Net financial and other income		<u>43,203</u>	<u>39,141</u>	<u>148,935</u>	<u>151,229</u>
Operating expenses					
Salaries and employee benefits		16,511	15,011	52,698	51,526
Premises and equipment		2,546	1,506	7,431	6,284
Other administrative expenses	23	11,439	12,309	35,318	35,883
		<u>30,496</u>	<u>28,826</u>	<u>95,447</u>	<u>93,693</u>
Profit before income taxes		12,707	10,315	53,488	57,536
Income taxes	24	2,124	1,727	7,656	8,453
Profit for the period		<u>\$ 10,583</u>	<u>\$ 8,588</u>	<u>\$ 45,832</u>	<u>\$ 49,083</u>

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		(Thousands of dollars) For the nine months ended	
	September 30 2014	September 30 2013	September 2014	September 30 2013
Profit for the period	\$ 10,583	\$ 8,588	\$ 45,832	\$ 49,083
Other comprehensive income, net of tax				
Fair value reserve (available-for-sale financial assets)				
Items that may be reclassified subsequently to profit or loss				
Net change in fair value ¹	(808)	3,825	11,944	(8,115)
Reclassification of realized gains on available-for-sale assets to profit or loss ²	(2,948)	(1,208)	(20,466)	(12,585)
	(3,756)	2,617	(8,522)	(20,700)
Item that will not be reclassified subsequently to profit or loss				
Net actuarial gains on employee benefits plans ³	-	-	147	308
Other comprehensive income (loss), net of tax	(3,756)	2,617	(8,375)	(20,392)
Comprehensive income, net of tax	\$ 6,827	\$ 11,205	\$ 37,457	\$ 28,691
Income tax (recoveries) deducted from the above items				
Income tax (recoveries) on items that may be reclassified subsequently to profit or loss				
¹ Net change in fair value of available-for-sale assets	\$ (122)	\$ 714	\$ 2,054	\$ (1,626)
² Reclassification of realized gains on available-for-sale assets to profit or loss	\$ (546)	\$ (164)	\$ (3,784)	\$ (2,261)
³ Net actuarial gains on employee benefits plans	\$ -	\$ -	\$ (147)	\$ (308)

See accompanying notes to the interim consolidated financial statements

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

(Thousands of dollars)	Attributable to equity holders								
	Share Capital	Contributed Surplus	Retained Earnings	Fair Value Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non- Controlling Interest	Total Equity
Balance at January 1, 2014 (Note 3)	\$ 307,185	\$ 87,901	\$ 433,171	\$ 38,453	\$ (3,375)	\$ 3,130	\$ 866,465	\$ 9,873	\$ 876,338
Total comprehensive income for the period									
Profit for the period			45,828				45,828	4	45,832
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(8,522)			(8,522)		(8,522)
Employee benefits reserve (net of tax)					147		147		147
Total comprehensive income	-	-	45,828	(8,522)	147	-	37,453	4	37,457
Transactions with owners, recorded directly in equity									
Dividends to members			(18,918)				(18,918)		(18,918)
Related tax savings			2,951				2,951		2,951
Class "E" shares redemption			(110)				(110)		(110)
Related tax savings			17				17		17
Net Classes "A", "B" and "C" shares issued	8,766						8,766		8,766
Transfer from reserves			(571)			571	-		-
Total contributions and distributions to owners	8,766	-	(16,631)	-	-	571	(7,294)	-	(7,294)
Balance at September 30, 2014	\$ 315,951	\$ 87,901	\$ 462,368	\$ 29,931	\$ (3,228)	\$ 3,701	\$ 896,624	\$ 9,877	\$ 906,501

Profit attributable to:

	2014	2013
Members of Central 1	\$ 45,828	\$ 49,083
Non-controlling interest	4	-
	<u>\$ 45,832</u>	<u>\$ 49,083</u>

Total comprehensive income attributable to:

Members of Central 1	\$ 37,453	\$ 28,691
Non-controlling interest	4	-
	<u>\$ 37,457</u>	<u>\$ 28,691</u>

See accompanying notes to the interim consolidated financial statements

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

(Thousands of dollars)	Attributable to equity holders								Non-Controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Retained Earnings	Fair Value Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members			
Balance at January 1, 2013 (Note 3)	\$ 290,299	\$ 87,901	\$ 374,841	\$ 46,326	\$ (6,867)	\$ 4,985	\$ 797,485	\$ 9,605	\$ 807,090	
Total comprehensive income for the period										
Profit for the period			49,083				49,083		49,083	
Other comprehensive income, net of tax										
Fair value reserve (available-for-sale financial assets, net of tax)				(20,700)			(20,700)		(20,700)	
Employee benefits reserve (net of tax)					308		308		308	
Total comprehensive income	-	-	49,083	(20,700)	308	-	28,691	-	28,691	
Transactions with owners, recorded directly in equity										
Dividends to members			(9,437)				(9,437)		(9,437)	
Related tax savings			1,571				1,571		1,571	
Class "E" shares redemption			(4)				(4)		(4)	
Related tax savings			1				1		1	
Net Classes "A", "B" and "C" shares issued	3,173						3,173		3,173	
Preferred shares issued by subsidiary							-	220	220	
Transfer from reserves			2,468			(2,468)	-		-	
Total contributions and distributions to owners	3,173	-	(5,401)	-	-	(2,468)	(4,696)	220	(4,476)	
Balance at September 30, 2013	\$ 293,472	\$ 87,901	\$ 418,523	\$ 25,626	\$ (6,559)	\$ 2,517	\$ 821,480	\$ 9,825	\$ 831,305	

See accompanying notes to the interim consolidated financial statements

Central 1 Credit Union
Interim Consolidated Statements of Cash Flows
Unaudited

	(Thousands of dollars)		(Thousands of dollars)	
	For the three months ended		For the nine months ended	
	September 30 2014	September 30 2013	September 30 2014	September 30 2013
Cash flows from operating activities				
Profit for the period	\$ 10,583	\$ 8,588	\$ 45,832	\$ 49,083
Adjustments for:				
Depreciation and amortization	5,033	1,256	3,840	3,556
Net interest income	(7,909)	(7,308)	(22,231)	(22,896)
Gain (loss) on disposal of financial instruments	(9,957)	3,910	(3,818)	(21,095)
Changes in fair value of financial instruments	2,716	(9,871)	(35,790)	(24,569)
Income tax expense	2,124	1,727	7,656	8,453
Recovery for credit losses	(24)	(149)	(257)	(939)
Other items, net	1,110	3,197	1,083	(3,239)
	<u>3,676</u>	<u>1,350</u>	<u>(3,685)</u>	<u>(11,646)</u>
Change in trading assets	(304,105)	(460,500)	(1,806,658)	(253,214)
Change in settlements in transit	333,126	580,659	74,368	391,712
Change in loans	82,873	82,902	250,572	808,616
Change in trading liabilities	272,341	317,451	1,546,816	152,899
Change in deposits	(530,193)	(810,366)	(1,286,117)	(654,696)
Change in derivative assets and liabilities	2,125	(10,309)	(41,692)	(44,464)
	<u>(140,157)</u>	<u>(298,813)</u>	<u>(1,266,396)</u>	<u>389,207</u>
Interest received	45,719	53,715	153,211	191,662
Interest paid	(33,267)	(42,704)	(118,281)	(169,118)
Income tax paid	(19)	(23)	(4,549)	(7,686)
	<u>(127,724)</u>	<u>(287,825)</u>	<u>(1,236,015)</u>	<u>404,065</u>
Cash flows from investing activities				
Change in deposits with regulated financial institutions	(11)	(11)	1,410	100,032
Change in reinvestment assets under the CMB and IMPP Programs	79,198	338,886	166,506	1,107,107
Change in investment securities	(68,099)	325,483	618,255	(442,666)
Change in secured loans to members	67,406	111,070	216,045	263,728
Acquisition of property, plant and equipment	(1,101)	(325)	(3,242)	(1,047)
Acquisition of intangible assets	(4,816)	(1,869)	(3,664)	(3,838)
	<u>72,577</u>	<u>773,234</u>	<u>995,310</u>	<u>1,023,316</u>
Cash flows from financing activities				
Change in obligations under the CMB and IMPP Programs	(163,463)	(355,437)	(326,917)	(1,090,901)
Change in subordinated liabilities	-	-	200,000	-
Change in debt securities issued	134,180	(22,606)	355,738	(273,485)
Change in securities under repurchase agreements	89,448	(116,719)	66,495	(99,952)
Dividends paid	-	-	(13,978)	(3,034)
Issuance of shares	-	-	8,766	3,173
	<u>60,165</u>	<u>(494,762)</u>	<u>290,104</u>	<u>(1,464,199)</u>
Increase (decrease) in cash	5,018	(9,353)	49,399	(36,818)
Cash - beginning of period	118,534	62,773	74,153	90,238
Cash - end of period	<u>\$ 123,552</u>	<u>\$ 53,420</u>	<u>\$ 123,552</u>	<u>\$ 53,420</u>

See accompanying notes to the interim consolidated financial statements

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

1. Incorporation and governing legislation

Central 1 Credit Union ("Central 1") is domiciled in Canada with a registered office located at 1441 Creekside Drive, Vancouver, British Columbia V6J 4S7, Canada. Central 1 is governed by the Credit Union Incorporation Act (British Columbia) and is also subject to the provisions of the Financial Institutions Act (British Columbia) and the Cooperative Credit Associations Act (Canada). These interim consolidated financial statements of Central 1 cover Central 1 and its subsidiaries.

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

2. Basis of preparation

(a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

The interim consolidated financial statements were authorized for issue by the Board of Directors on November 24, 2014.

Cooperative Credit Associations Act (Canada)

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

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

(b) Basis of measurement

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

- Derivative financial instruments are measured at fair value.
- Financial instruments through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value, except as described in Note 10.
- The assets and liabilities for defined benefit obligations are recognized as the present value of the benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized actuarial past service costs and unrecognized actuarial losses.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Note 5 of Central 1's annual consolidated financial statements for the year ended December 31, 2013 contains information about significant areas of estimation, uncertainty and critical judgments that were used in applying accounting policies during the preparation of Central 1's annual consolidated financial statements for the year ended December 31, 2013.

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

(e) Segment information

Note 25 contains information on segment reporting in accordance with *IFRS 8 Operating segments*. Prior to January 1, 2014, discrete segment information was not available and therefore comparative information has not been included in these interim consolidated financial statements.

3. Accounting policies

Except as indicated below, these interim consolidated financial statements have been prepared using the same accounting policies as set out in Note 3 to Central 1's consolidated financial statements as at and for the year ended December 31, 2013.

Trade date accounting

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

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

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

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

(Thousands of dollars)

	<u>September 30,</u> <u>2013</u>	<u>Change in</u> <u>accounting</u> <u>policy</u>	<u>As revised</u> <u>September 30,</u> <u>2013</u>
Statement of financial position			
Assets			
Non-pledged trading assets	\$ 2,893,444	\$ 90,066	\$ 2,983,510
Investment securities	6,834,982	(9,807)	6,825,175
Current tax assets	8,075	(89)	7,986
Other assets	<u>77,065</u>	<u>92,000</u>	<u>169,065</u>
	9,813,566	172,170	9,985,736
Liabilities			
Other liabilities	\$ 576,470	\$ 171,382	\$ 747,852
Equity			
Retained earnings	417,743	780	418,523
Accumulated other comprehensive income	<u>19,059</u>	<u>8</u>	<u>19,067</u>
	\$ 436,802	\$ 788	\$ 437,590

(Thousands of dollars)

For the three months ended

	<u>September 30,</u> <u>2013</u>	<u>Change in</u> <u>accounting policy</u>	<u>As revised</u> <u>September 30,</u> <u>2013</u>
Other comprehensive income			
Net change in fair value, net of tax	\$ 3,841	\$ (16)	\$ 3,825
Income tax (recoveries) deducted from the above item	716	(2)	714
Statement of profit or loss			
Gain on disposal of financial instruments	\$ (4,554)	\$ 644	\$ (3,910)
Change in fair value of financial instruments	9,645	226	9,871
Income taxes	<u>(1,639)</u>	<u>(88)</u>	<u>(1,727)</u>
	\$ 3,452	\$ 782	\$ 4,234

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

(Thousands of dollars)
For the nine months ended

	<u>September 30,</u> <u>2013</u>	<u>Change in</u> <u>accounting policy</u>	<u>As revised</u> <u>September 30,</u> <u>2013</u>
Other comprehensive income			
Net change in fair value, net of tax	\$ (8,123)	\$ 8	\$ (8,115)
Income tax (recoveries) deducted from the above item	(1,627)	1	(1,626)
Statement of profit or loss			
Gain on disposal of financial instruments	\$ 20,453	\$ 642	\$ 21,095
Change in fair value of financial instruments	24,343	226	24,569
Income taxes	<u>(8,365)</u>	<u>(88)</u>	<u>(8,453)</u>
	\$ 36,431	\$ 780	\$ 37,211

Operating segments

Also effective January 1, 2014, Central 1's management commenced disclosing its operating units which meet the definition of Operating segments in accordance with *IFRS 8 – Operating Segments*. Previously, discrete information was not available for these Operating segments and therefore comparative information has not been included in these interim consolidated financial statements. Further information is included in Note 25.

4. Fair value of financial instruments

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

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received to obtain the instrument. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above. The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows, discount rates and use of appropriate benchmarks and spreads.

The use of valuation techniques as described above represents a change in methodology for Central 1. Previously quoted prices in an active market were used where possible to value financial assets and financial liabilities. Where

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

quoted prices did not exist, quoted market prices for similar securities, other third party evidence or valuation techniques were used. Management is of the view that the resulting fair values from the new valuation techniques more accurately reflect the amount which would be received (or paid) in an orderly transaction between market participants.

Financial instruments whose book values approximate fair value

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

Financial instruments for which fair value is determined using valuation techniques

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

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

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

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

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

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

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

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

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

September 30, 2014 (Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost ¹	Total Carrying Value
Assets						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 123.6	\$ 123.6
Deposits with regulated financial institutions	-	-	-	-	5.7	5.7
Pledged trading assets	-	90.0	-	90.0	-	90.0
Reinvestment assets under the CMB and IMPP Programs	-	139.8	-	139.8	-	139.8
Non-pledged trading assets	-	6,109.8	-	6,109.8	-	6,109.8
Derivative assets	-	35.2	-	35.2	-	35.2
Loans	-	-	-	-	906.9	906.9
Investment securities	-	4,900.9	9.2	4,910.1	32.1	4,942.2
Secured loans to members	-	-	12.9	12.9	-	12.9
Current tax assets	-	-	-	-	5.1	5.1
Property and equipment	-	-	-	-	16.9	16.9
Intangible assets	-	-	-	-	14.7	14.7
Deferred tax assets	-	-	-	-	7.8	7.8
Investment in affiliates	-	-	-	-	121.7	121.7
Other assets	-	-	-	-	351.8	351.8
Total assets	<u>\$ -</u>	<u>\$ 11,275.7</u>	<u>\$ 22.1</u>	<u>\$ 11,297.8</u>	<u>\$ 1,586.3</u>	<u>\$ 12,884.1</u>
Liabilities						
Deposits designated as trading	\$ -	\$ 4,960.1	\$ -	\$ 4,960.1	\$ -	\$ 4,960.1
Derivative liabilities	-	107.2	-	107.2	-	107.2
Debt securities issued	-	-	-	-	1,454.1	1,454.1
Deposits	-	-	-	-	3,870.9	3,870.9
Obligations under the CMB and IMPP Programs	-	505.4	-	505.4	-	505.4
Subordinated liabilities	-	-	-	-	372.0	372.0
Provisions	-	-	-	-	3.4	3.4
Securities under repurchase agreements	-	-	-	-	173.2	173.2
Deferred tax liabilities	-	-	-	-	5.2	5.2
Other liabilities	-	-	-	-	526.1	526.1
Total liabilities	<u>-</u>	<u>5,572.7</u>	<u>-</u>	<u>5,572.7</u>	<u>6,404.9</u>	<u>11,977.6</u>
Net assets (liabilities)	<u>\$ -</u>	<u>\$ 5,703.0</u>	<u>\$ 22.1</u>	<u>\$ 5,725.1</u>	<u>\$ (4,818.6)</u>	<u>\$ 906.5</u>

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

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

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September 30, 2013 (Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost ¹	Total Carrying Value
Assets	\$ -	\$ 10,399.2	\$ 304.1	\$ 10,703.3	\$ 1,671.8	\$ 12,375.1
Liabilities	-	3,713.3	-	3,713.3	7,830.5	11,543.8
Net assets (liabilities)	<u>\$ -</u>	<u>\$ 6,685.9</u>	<u>\$ 304.1</u>	<u>\$ 6,990.0</u>	<u>\$ (6,158.7)</u>	<u>\$ 831.3</u>
December 31, 2013 (Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost ¹	Total Carrying Value
Assets	\$ -	\$ 10,225.2	\$ 238.8	\$ 10,464.0	\$ 1,730.4	\$ 12,194.4
Liabilities	-	4,381.3	-	4,381.3	6,936.7	11,318.0
Net assets (liabilities)	<u>\$ -</u>	<u>\$ 5,843.9</u>	<u>\$ 238.8</u>	<u>\$ 6,082.7</u>	<u>\$ (5,206.3)</u>	<u>\$ 876.4</u>

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

(Millions of dollars)	<u>Fair Value at December 31, 2013</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Transfers</u>	<u>Changes in fair value of assets in profit or loss</u>	<u>Fair Value at September 30, 2014</u>
Secured loans to members	\$ 229.6	\$ -	\$ (216.3)	\$ -	\$ (0.4)	\$ 12.9
Equity shares	9.2	-	-	-	-	9.2
Net assets	<u>\$ 238.8</u>	<u>\$ -</u>	<u>\$ (216.3)</u>	<u>\$ -</u>	<u>\$ (0.4)</u>	<u>\$ 22.1</u>
	<u>Fair Value at January 1, 2013</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Transfers</u>	<u>Changes in fair value of assets in profit or loss</u>	<u>Fair Value at December 31, 2013</u>
Net assets	<u>\$ 570.7</u>	<u>\$ -</u>	<u>\$ (329.3)</u>	<u>\$ -</u>	<u>\$ (2.6)</u>	<u>\$ 238.8</u>

Note 27 sets out the fair value of the financial instruments in the interim consolidated statements of financial position.

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5. Deposits with regulated financial institutions

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amortized cost	<u>\$ 5,668</u>	<u>\$ 6,191</u>	<u>\$ 7,132</u>	<u>\$ 106,275</u>
Fair value	<u>\$ 5,693</u>	<u>\$ 6,288</u>	<u>\$ 7,165</u>	<u>\$ 106,334</u>

6. Trading assets

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Government & guarantees	<u>\$ 4,559,924</u>	<u>\$ 1,659,934</u>	<u>\$ 2,587,633</u>	<u>\$ 1,431,450</u>
Corporate & financial institutions AA ⁽¹⁾ or greater	<u>1,596,979</u>	<u>1,343,655</u>	<u>1,722,808</u>	<u>1,284,990</u>
Other	<u>42,919</u>	<u>44,578</u>	<u>66,415</u>	<u>98,086</u>
Fair value	<u>\$ 6,199,822</u>	<u>\$ 3,048,167</u>	<u>\$ 4,376,856</u>	<u>\$ 2,814,526</u>

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

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(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amortized cost	<u>\$ 6,166,899</u>	<u>\$ 3,014,442</u>	<u>\$ 4,337,025</u>	<u>\$ 2,708,564</u>
Fair value	<u>\$ 6,199,822</u>	<u>\$ 3,048,167</u>	<u>\$ 4,376,856</u>	<u>\$ 2,814,526</u>
Less pledged trading assets	<u>(89,999)</u>	<u>(64,657)</u>	<u>(64,443)</u>	<u>(135,572)</u>
Non-pledged trading assets	<u>\$ 6,109,823</u>	<u>\$ 2,983,510</u>	<u>\$ 4,312,413</u>	<u>\$ 2,678,954</u>

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

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Trading assets	<u>\$ 89,999</u>	<u>\$ 64,657</u>	<u>\$ 64,443</u>	<u>\$ 135,572</u>
Amounts included in investment securities	<u>39,828</u>	<u>41,168</u>	<u>46,269</u>	<u>58,905</u>
	<u>\$ 129,827</u>	<u>\$ 105,825</u>	<u>\$ 110,712</u>	<u>\$ 194,477</u>

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7. Reinvestment assets under the CMB and IMPP Programs

As principal and interest payments on the underlying securitized assets are received, Central 1 is required to reinvest those assets on behalf of Canada Housing Trust (“CHT”) and Canada Mortgage and Housing Corporation (“CMHC”). These reinvestment assets, which are recognized in the interim consolidated statements of financial position at fair value, are as follows:

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

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Government and guarantees	\$ 30,661	\$ 74,245	\$ 65,698	\$ 491,590
Assets acquired under reverse repurchase agreements	<u>63,525</u>	<u>286,860</u>	<u>89,242</u>	<u>148,840</u>
Fair value	<u>\$ 94,186</u>	<u>\$ 361,105</u>	<u>\$ 154,940</u>	<u>\$ 640,430</u>
Amortized cost	<u>\$ 93,903</u>	<u>\$ 360,565</u>	<u>\$ 154,512</u>	<u>\$ 638,117</u>

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

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Fair value of government & guarantees	<u>\$ 45,609</u>	<u>\$ 177,978</u>	<u>\$ 151,974</u>	<u>\$ 1,011,814</u>
Amortized cost	<u>\$ 43,149</u>	<u>\$ 177,845</u>	<u>\$ 151,715</u>	<u>\$ 1,010,630</u>
Total reinvestment assets under the CMB and IMPP Programs	<u>\$ 139,795</u>	<u>\$ 539,083</u>	<u>\$ 306,914</u>	<u>\$ 1,652,244</u>

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8. Derivative assets and liabilities

The following table summarizes the fair value of derivative assets and liabilities:

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>		<u>September 30,</u> <u>2013</u>		<u>December 31,</u> <u>2013</u>		<u>January 1,</u> <u>2013</u>	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
Interest rate contracts								
Forward rate agreements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ 25	\$ 10
Swap contracts	102,802	174,618	101,731	227,842	97,261	218,728	169,076	350,988
Options purchased	157	-	223	-	286	-	218	-
Options written	<u>-</u>	<u>152</u>	<u>-</u>	<u>238</u>	<u>-</u>	<u>302</u>	<u>-</u>	<u>264</u>
	102,959	174,770	101,954	228,080	97,547	219,033	169,319	351,262
Foreign exchange contracts								
Foreign exchange spot and forward contracts	2,432	2,593	1,019	652	1,567	1,343	353	434
Other								
Equity index-linked options	<u>18,374</u>	<u>18,374</u>	<u>15,054</u>	<u>15,054</u>	<u>17,659</u>	<u>17,659</u>	<u>14,338</u>	<u>14,338</u>
Total fair value before adjustment	123,765	195,737	118,027	243,786	116,773	238,035	184,010	366,034
Adjustment for master netting agreements	<u>(88,570)</u>	<u>(88,570)</u>	<u>(89,998)</u>	<u>(89,998)</u>	<u>(87,390)</u>	<u>(87,390)</u>	<u>(149,992)</u>	<u>(149,992)</u>
	<u>\$ 35,195</u>	<u>\$ 107,167</u>	<u>\$ 28,029</u>	<u>\$ 153,788</u>	<u>\$ 29,383</u>	<u>\$ 150,645</u>	<u>\$ 34,018</u>	<u>\$ 216,042</u>

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

As of September 30, 2014, the amounts that have been pledged and received as collateral are \$41.11 million and \$9.76 million, respectively.

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9. Loans

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Due on demand - Credit unions	\$ 188,103	\$ 132,870	\$ 162,986	\$ 80,977
- Commercial and others	<u>21,715</u>	<u>13,152</u>	<u>4,107</u>	<u>1,661</u>
	<u>209,818</u>	<u>146,022</u>	<u>167,093</u>	<u>82,638</u>
Term				
- Credit unions	374,161	899,703	716,853	1,753,275
- Commercial and others	200,528	173,656	180,496	187,392
- Reverse repurchase agreements	100,148	11,399	66,874	11,485
- Officers and employees	10,025	12,492	12,170	13,767
- Mortgage pools	<u>11,861</u>	<u>14,134</u>	<u>13,627</u>	<u>17,464</u>
	<u>696,723</u>	<u>1,111,384</u>	<u>990,020</u>	<u>1,983,383</u>
	906,541	1,257,406	1,157,113	2,066,021
Accrued interest	<u>757</u>	<u>3,100</u>	<u>1,444</u>	<u>5,084</u>
	907,298	1,260,506	1,158,557	2,071,105
Allowance for credit losses	<u>(405)</u>	<u>(832)</u>	<u>(585)</u>	<u>(1,584)</u>
	<u>\$ 906,893</u>	<u>\$ 1,259,674</u>	<u>\$ 1,157,972</u>	<u>\$ 2,069,521</u>

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

Impaired loans are as follows:

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Gross impaired	\$ 5,643	\$ 7,785	\$ 7,256	\$ 14,830
Specific allowance	<u>(382)</u>	<u>(708)</u>	<u>(556)</u>	<u>\$ (1,369)</u>
Recoverable amount	<u>\$ 5,261</u>	<u>\$ 7,077</u>	<u>\$ 6,700</u>	<u>\$ 13,461</u>

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

(Thousands of dollars)

	Specific Allowance	Collective Allowance	<u>Three months ended September 30, 2014</u>	<u>Nine months ended September 30, 2014</u>	<u>Three months ended September 30, 2013</u>	<u>Nine months ended September 30, 2013</u>
Balance at beginning of period	\$ 404	\$ 24	\$ 427	\$ 585	\$ 1,045	\$ 1,584
Net write-offs during the period	1	-	2	77	(64)	187
Recovery for credit losses	(23)	(1)	(24)	(257)	(149)	(939)
Balance at end of period	<u>\$ 382</u>	<u>\$ 23</u>	<u>\$ 405</u>	<u>\$ 405</u>	<u>\$ 832</u>	<u>\$ 832</u>

10. Investment securities

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

(Thousands of dollars)

	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>December 31, 2013</u>	<u>January 1, 2013</u>
Amortized cost	<u>\$ 4,918,713</u>	<u>\$ 6,799,203</u>	<u>\$ 5,518,948</u>	<u>\$ 6,345,691</u>
Fair value	<u>\$ 4,942,236</u>	<u>\$ 6,825,175</u>	<u>\$ 5,553,354</u>	<u>\$ 6,393,659</u>

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Government & guarantees	\$ 3,359,198	\$ 3,257,428	\$ 2,995,013	\$ 2,735,237
Corporate & financial institutions AA ⁽¹⁾ or greater	1,248,751	3,377,846	2,376,386	3,479,314
Other	<u>334,287</u>	<u>189,901</u>	<u>181,955</u>	<u>179,108</u>
	<u>\$ 4,942,236</u>	<u>\$ 6,825,175</u>	<u>\$ 5,553,354</u>	<u>\$ 6,393,659</u>

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

The above table includes **\$32.1** million (September 30, 2013 - \$32.1 million; December 31, 2013 - \$32.1 million; January 1, 2013 - \$32.1 million) of equity investment securities that are measured at cost and for which disclosure of fair value is not provided because the fair value cannot be reliably measured.

The above table also includes **\$352.7** million (September 30, 2013 - \$302.6 million; December 31, 2013 - \$295.4 million; January 1, 2013 - \$98.5 million) of third party MBS that were transferred to CHT under the CMB program as described in the significant accounting policies as disclosed in Central 1's consolidated financial statements for the year ended December 31, 2013.

At the period-end, securities having a par value of **\$984.8** million (September 30, 2013 - \$971.6 million; December 31, 2013 - \$970.1 million; January 1, 2013 - \$943.5 million) were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments.

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11. Secured loans to members

Through its participation in the CMB and IMPP Programs as described in the accounting policy disclosed in Central 1's consolidated financial statements for the year end December 31, 2013, Central 1 recognizes its interest in the underlying residential mortgages as secured loans from its member credit unions.

The par amounts outstanding on these secured loans are as follows:

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Total amount of secured loans issued	\$ 4,240,559	\$ 4,240,559	\$ 4,240,559	\$ 4,240,559
Aggregate principal payments received	<u>(4,227,694)</u>	<u>(3,947,243)</u>	<u>(4,011,960)</u>	<u>(3,684,253)</u>
Remaining par value of secured loans to members in the interim consolidated statements of financial position	<u>\$ 12,865</u>	<u>\$ 293,316</u>	<u>\$ 228,599</u>	<u>\$ 556,306</u>

The components of these balances are as follows:

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Remaining par value of secured loans under the CMB and IMPP Programs	\$ 7,547	\$ 134,190	\$ 108,394	\$ 284,135
Remaining par value of secured loans retained by Central 1	<u>5,318</u>	<u>159,126</u>	<u>120,205</u>	<u>272,171</u>
	<u>\$ 12,865</u>	<u>\$ 293,316</u>	<u>\$ 228,599</u>	<u>\$ 556,306</u>

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amortized cost	<u>\$ 12,891</u>	<u>\$ 294,218</u>	<u>\$ 229,231</u>	<u>\$ 558,481</u>
Fair value	<u>\$ 12,889</u>	<u>\$ 294,887</u>	<u>\$ 229,620</u>	<u>\$ 561,511</u>

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Key inputs into the model used to determine the fair value of secured loans to members include interest rates and mortgage prepayment rates. There is also an interrelationship between the level of interest rates and the mortgage prepayment rate, for example, in an environment where interest rates are on a downward trend, the prepayment rate generally tends to increase as mortgages are refinanced. A change in the mortgage prepayment rate changes the expected principal and interest cash flows of the secured loans. The impact of a sustained change in the prepayment rate and interest rate were calculated, based on an increase or decrease of 1.0% and 200 basis points, respectively. The sensitivity analysis showed there was no significant impact on the value of secured loans to members.

12. Other assets

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Settlements in-transit	\$ 331,873	\$ 154,000	\$ 280,976	\$ 279,402
Investment property	5,368	5,736	5,644	6,012
Prepaid expenses	4,262	4,179	3,714	2,961
Post-employment benefits	3,444	-	3,229	-
Accounts receivable and other	<u>6,882</u>	<u>5,150</u>	<u>6,370</u>	<u>5,856</u>
	<u>\$ 351,829</u>	<u>\$ 169,065</u>	<u>\$ 299,933</u>	<u>\$ 294,231</u>

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

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

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13. Deposits designated as trading

Deposits designated as trading are as follows:

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amortized cost	<u>\$ 4,948,371</u>	<u>\$ 2,426,694</u>	<u>\$ 3,392,920</u>	<u>\$ 2,275,998</u>
Fair value	<u>\$ 4,960,148</u>	<u>\$ 2,426,116</u>	<u>\$ 3,398,893</u>	<u>\$ 2,286,078</u>

The contractual maturity dates of these liabilities are as follows:

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amount				
Due within three months	<u>\$ 1,250,041</u>	<u>\$ 112,360</u>	<u>\$ 753,909</u>	<u>\$ 299,315</u>
Due after three months and within one year	<u>1,035,225</u>	<u>600,267</u>	<u>635,787</u>	<u>817,942</u>
Due after one year and within five years	<u>2,637,387</u>	<u>1,698,217</u>	<u>1,985,265</u>	<u>1,140,414</u>
Due after five years	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
	<u>4,922,653</u>	<u>2,413,844</u>	<u>3,374,961</u>	<u>2,257,671</u>
Accrued interest	<u>25,718</u>	<u>12,850</u>	<u>17,959</u>	<u>18,327</u>
Amortized cost	<u>\$ 4,948,371</u>	<u>\$ 2,426,694</u>	<u>\$ 3,392,920</u>	<u>\$ 2,275,998</u>

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14. Debt securities issued

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Notes				
Due within three months	\$ 576,023	\$ 586,090	\$ 527,248	\$ 487,241
Due after three months and within one year	576,966	39,862	269,700	412,330
Due after one year and within five years	<u>299,166</u>	<u>269,614</u>	<u>299,469</u>	<u>269,480</u>
	1,452,155	895,566	1,096,417	1,169,051
Accrued interest	<u>1,945</u>	<u>157</u>	<u>1,092</u>	<u>1,753</u>
	<u>\$ 1,454,100</u>	<u>\$ 895,723</u>	<u>\$ 1,097,509</u>	<u>\$ 1,170,804</u>

Central 1 has established **\$47.4** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At September 30, 2014, September 30, 2013, December 31, 2013 and January 1, 2013, no amounts were drawn against these facilities.

Central 1 is authorized to issue up to \$1.5 billion in short-term commercial paper and up to \$1.5 billion in other borrowings which includes Central 1's medium-term note facility. At September 30, 2014, a par value of **\$585.0** million was borrowed under the short-term commercial paper facility (September 30, 2013 - \$627.0 million; December 31, 2013 - \$528.0 million; January 1, 2013 - \$588.0 million) and a par value of **\$870.0** million was borrowed under the medium-term note facility (September 30, 2013 - \$270.0 million; December 31, 2013 - \$570.0 million; January 1, 2013 - \$582.9 million).

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15. Deposits

Deposits classified as other liabilities are as follows:

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amount				
Due on demand	\$ 1,245,452	\$ 912,162	\$ 1,040,423	\$ 951,469
Due within three months	360,936	1,155,195	688,463	1,424,996
Due after three months and within one year	946,686	1,351,758	1,258,919	1,342,227
Due after one year and within five years	<u>1,294,632</u>	<u>2,451,780</u>	<u>2,146,019</u>	<u>2,806,894</u>
	3,847,706	5,870,895	5,133,824	6,525,586
Accrued interest	<u>23,210</u>	<u>34,873</u>	<u>33,793</u>	<u>38,750</u>
	<u>\$ 3,870,916</u>	<u>\$ 5,905,768</u>	<u>\$ 5,167,617</u>	<u>\$ 6,564,336</u>

16. Obligations under the CMB and IMPP Programs securitization transactions

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Amount due within one year	\$ 96,110	\$ 710,704	\$ 507,499	\$ 1,603,436
Amount due after one year and within five years	401,220	336,452	316,942	611,284
Amount due after five years	<u>-</u>	<u>76,599</u>	<u>-</u>	<u>-</u>
	497,330	1,123,755	824,441	2,214,720
Accrued interest	<u>2,977</u>	<u>3,399</u>	<u>2,264</u>	<u>8,025</u>
Amortized cost	<u>\$ 500,307</u>	<u>\$ 1,127,154</u>	<u>\$ 826,705</u>	<u>\$ 2,222,745</u>
Fair value of total obligations under the CMB and IMPP Programs	<u>\$ 505,436</u>	<u>\$ 1,133,384</u>	<u>\$ 831,762</u>	<u>\$ 2,259,992</u>

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Secured loans to members (Note 11)	\$ 12,889	\$ 294,887	\$ 229,620	\$ 561,511
Total reinvestment assets under the CMB and IMPP Programs (Note 7)	139,795	539,083	306,914	1,652,244
Assets recognized as non-pledged trading assets and investment securities (Note 10)	<u>352,716</u>	<u>302,591</u>	<u>295,384</u>	<u>98,525</u>
Total assets supporting the CMB and IMPP Programs	<u>\$ 505,400</u>	<u>\$ 1,136,561</u>	<u>\$ 831,918</u>	<u>\$ 2,312,280</u>

17. Subordinated liabilities

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Series 2	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
Series 3	18,000	18,000	18,000	18,000
Series 4	<u>200,000</u>	-	-	-
Principal amount	368,000	168,000	168,000	168,000
Accrued interest	<u>4,026</u>	<u>2,555</u>	<u>1,139</u>	<u>859</u>
	<u>\$ 372,026</u>	<u>\$ 170,555</u>	<u>\$ 169,139</u>	<u>\$ 168,859</u>

On October 9, 2009, Central 1 issued \$150.0 million principal amount of 4.00% Series 2 notes due October 9, 2019. The notes bear interest at a fixed rate of 4.00% until, but excluding, October 9, 2014, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 2.40%. Central 1 has the option to redeem the note on October 9, 2014, subject to regulatory approval.

Subsequent to September 30, 2014, Central 1 received regulatory approval and exercised the option to fully redeem the Series 2 notes on October 9, 2014.

On July 6, 2011, Central 1 issued \$18.0 million principal amount of Series 3 notes due July 6, 2021. The notes bear interest at a floating rate based on 90-day Bankers' Acceptance plus 10 basis points, payable quarterly until July 6, 2016, and Central 1 has the option to redeem the outstanding notes in whole or in part on July 6, 2016, subject to regulatory approval.

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

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

18. Other liabilities

(Thousands of dollars)

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Settlements in-transit	\$ 458,587	\$ 690,477	\$ 329,398	\$ 424,167
Post-employment benefits	22,265	22,558	21,706	21,913
Short-term employee benefits	5,377	4,412	4,470	6,544
Dividends payable	18,918	9,437	13,978	3,034
Unearned insurance premiums	233	961	875	668
Trade amounts and other	<u>20,686</u>	<u>20,007</u>	<u>16,716</u>	<u>14,748</u>
	<u>\$ 526,066</u>	<u>\$ 747,852</u>	<u>\$ 387,143</u>	<u>\$ 471,074</u>

19. Share capital

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

In the event of liquidation, dissolution or winding-up, any surplus, profits or assets of Central 1 shall be distributed proportionately among all shareholders, except the amount paid to a member in respect of Class E shares held by that member shall not exceed \$100 in Class B or Class C shares respectively of Central 1.

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

The numbers of shares issued are as follows:

	(Thousands of shares)		
	<u>For the nine months ended September 30, 2014</u>	<u>For the nine months ended September 30, 2013</u>	<u>For the year ended December 31, 2013</u>
Class A – credit unions			
Balance at beginning of period	307,141	290,255	290,255
Issued for cash during the period	8,820	3,175	16,888
Redeemed during the period	<u>(54)</u>	<u>(2)</u>	<u>(2)</u>
Balance at end of period	<u><u>315,907</u></u>	<u><u>293,428</u></u>	<u><u>307,141</u></u>
Class B – co-operatives			
Balance at beginning and end of period	<u><u>5</u></u>	<u><u>5</u></u>	<u><u>5</u></u>
Class C – other			
Balance at beginning and end of period	<u><u>7</u></u>	<u><u>7</u></u>	<u><u>7</u></u>
Class E – credit unions			
Balance at beginning of period	3,159	3,159	3,159
Redeemed during the period	<u>(1)</u>	<u>-</u>	<u>-</u>
Balance at end of period	<u><u>3,158</u></u>	<u><u>3,159</u></u>	<u><u>3,159</u></u>

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The amounts outstanding are as follows:

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

20. Gain (loss) on disposal of financial instruments

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

	(Thousands of dollars)			
	<u>For the three months</u> <u>ended</u>		<u>For the nine months</u> <u>ended</u>	
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>
Net gain on disposal of trading assets	\$ 5,790	\$ 5,449	\$ 24,502	\$ 53,721
Net gain on disposal of investment securities	3,493	1,366	22,464	14,840
Net gain (loss) on disposal of derivatives	1,538	(10,449)	(40,980)	(44,235)
Net loss on disposal of deposits	<u>(864)</u>	<u>(276)</u>	<u>(2,168)</u>	<u>(3,231)</u>
	<u>\$ 9,957</u>	<u>\$ (3,910)</u>	<u>\$ 3,818</u>	<u>\$ 21,095</u>

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21. Change in fair value of financial instruments

(Thousands of dollars)

	<u>For the three months</u>		<u>For the nine months</u>	
	<u>ended</u>		<u>ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Trading assets	\$ (14,281)	\$ (1,662)	\$ (11,376)	\$ (71,867)
Activities under the CMB and IMPP Programs				
Reinvestment assets	19	(308)	(383)	(1,758)
Derivative assets and liabilities	19	(2,551)	458	(16,841)
Secured loans to members	(14)	(300)	(391)	(2,360)
Obligations to CHT and CMHC	1,240	4,386	(232)	31,017
Derivative assets and liabilities	3,953	14,247	53,453	75,721
Trading deposits	<u>6,348</u>	<u>(3,941)</u>	<u>(5,739)</u>	<u>10,657</u>
	<u>\$ (2,716)</u>	<u>\$ 9,871</u>	<u>\$ 35,790</u>	<u>\$ 24,569</u>

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22. Other income

(Thousands of dollars)

	<u>For the three months</u> <u>ended</u>		<u>For the nine months</u> <u>ended</u>	
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>
Membership Dues	\$ 2,238	\$ 2,156	\$ 6,819	\$ 6,573
Provincial Advertising Assessment	308	408	653	1,263
Equity Interest in Affiliates	697	1,536	4,113	4,730
Insurance Premiums and Assessments	524	1,362	3,375	3,832
Technology and Payment Services				
- Processing fees	11,359	10,197	33,553	30,793
- Direct banking fees	7,208	5,636	18,710	16,882
Wholesale Financial Services				
- Treasury services & foreign exchange income	1,177	-	5,178	2,182
- Lending fees	1,582	1,250	4,229	3,858
- Employee benefits & retirement services	333	297	974	911
- Trust services	653	599	1,760	1,715
- Other	38	-	506	1,104
Trade and Other Services				
- Product compliance & design	395	413	1,153	1,220
- Property rents	149	120	462	493
- Cooperative risk solutions	496	619	1,840	2,064
- Marketing products & programs	460	588	2,271	2,490
- Research	116	85	350	358
- Other	296	457	893	1,262
	<u>\$ 28,029</u>	<u>\$ 25,723</u>	<u>\$ 86,839</u>	<u>\$ 81,730</u>

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23. Other administrative expenses

(Thousands of dollars)

	<u>For the three months</u> <u>ended</u>		<u>For the nine months</u> <u>ended</u>	
	<u>September 30,</u> <u>2014</u>	September 30, <u>2013</u>	<u>September 30,</u> <u>2014</u>	September 30, <u>2013</u>
Cost of sales and services	\$ 2,334	\$ 2,591	\$ 7,368	\$ 8,084
Cost of payments processing	3,681	3,894	10,573	9,651
Insurance claims and premiums	3	962	1,758	3,097
Automobile and travel	363	340	1,015	971
Projects and business development	1,675	1,127	4,443	3,388
Professional services	1,763	2,056	4,922	5,770
Directors and officers	11	77	910	888
Membership fees	1,217	1,111	3,252	3,273
Other	<u>392</u>	<u>151</u>	<u>1,077</u>	<u>761</u>
	<u>\$ 11,439</u>	<u>\$ 12,309</u>	<u>\$ 35,318</u>	<u>\$ 35,883</u>

24. Provision for income taxes

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

(Thousands of dollars)

	<u>For the three months</u> <u>ended</u>		<u>For the nine months</u> <u>ended</u>	
	<u>September 30,</u> <u>2014</u>	September 30, <u>2013</u>	<u>September 30,</u> <u>2014</u>	September 30, <u>2013</u>
Provision for income taxes in the interim consolidated statements of profit or loss	\$ 2,124	\$ 1,727	\$ 7,656	\$ 8,453
Income tax benefit related to dividends accrued and share redemptions	<u>(886)</u>	<u>(531)</u>	<u>(2,968)</u>	<u>(1,572)</u>
Total	<u>\$ 1,238</u>	<u>\$ 1,196</u>	<u>\$ 4,688</u>	<u>\$ 6,881</u>

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

	(Thousands of dollars)			
	<u>For the three months</u>		<u>For the nine months</u>	
	<u>ended</u>		<u>ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current income taxes	\$ 848	\$ 2,285	\$ 8,580	\$ 6,783
Deferred income taxes (recovery)	<u>1,276</u>	<u>(558)</u>	<u>(924)</u>	<u>1,670</u>
Total	<u>\$ 2,124</u>	<u>\$ 1,727</u>	<u>\$ 7,656</u>	<u>\$ 8,453</u>

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

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

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

	<u>For the three months</u>		<u>For the nine months</u>	
	<u>ended</u>		<u>ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Combined federal and provincial statutory income tax rates	26.1	26.1	26.1	26.1
Reduction available to credit unions	(10.5)	(11.3)	(10.5)	(11.3)
Impact of rate change on current tax	-	-	-	1.5
Change in estimated future tax rates on deferred tax balances	-	-	(1.3)	(2.6)
Non-deductible and other items	<u>1.1</u>	<u>1.9</u>	<u>-</u>	<u>1.0</u>
	<u>16.7</u>	<u>16.7</u>	<u>14.3</u>	<u>14.7</u>

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25. Segment information

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

A description of each business segment is as follows:

Mandatory reserve pool

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

Wholesale financial services

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

Trade services

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

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Other

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

Management reporting framework

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

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

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Results by segment

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

(Thousands of dollars)

	<u>Mandatory</u> <u>Reserve</u> <u>Pool</u>	<u>Wholesale</u> <u>Financial</u> <u>Services</u>	<u>Trade</u> <u>Services</u>	<u>Other</u>	<u>Total</u>
Interest income	\$ 27,751	\$ 23,231	\$ 61	\$ 71	\$ 51,114
Interest expense	<u>22,572</u>	<u>17,573</u>	-	<u>3,060</u>	<u>43,205</u>
Interest margin	5,179	5,658	61	(2,989)	7,909
Gain on disposal of financial instruments	6,775	3,182	-	-	9,957
Changes in fair value of financial instruments	(3,892)	1,179	(3)	-	(2,716)
Recovery for credit losses	-	<u>(24)</u>	-	-	<u>(24)</u>
Net financial income, including recovery (provision) for credit losses	8,062	10,043	58	(2,989)	15,174
Other income	<u>(476)</u>	<u>19,413</u>	<u>4,730</u>	<u>4,362</u>	<u>28,029</u>
Net financial and other income	7,586	29,456	4,788	1,373	43,203
Operating expenses	<u>1,902</u>	<u>18,525</u>	<u>5,468</u>	<u>4,601</u>	<u>30,496</u>
Profit (loss) before income taxes	5,684	10,931	(680)	(3,228)	12,707
Income taxes (recoveries)	<u>887</u>	<u>1,823</u>	<u>(120)</u>	<u>(466)</u>	<u>2,124</u>
Profit (loss) for the period	<u>\$ 4,797</u>	<u>\$ 9,108</u>	<u>\$ (560)</u>	<u>\$ (2,762)</u>	<u>\$ 10,583</u>

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The following table summarizes the segment results for the nine months ended September 30, 2014:

(Thousands of dollars)

	<u>Mandatory Reserve Pool</u>	<u>Wholesale Financial Services</u>	<u>Trade Services</u>	<u>Other</u>	<u>Total</u>
Interest income	\$ 77,594	\$ 69,140	\$ 194	\$ 190	\$ 147,118
Interest expense	<u>66,715</u>	<u>51,444</u>	<u>-</u>	<u>6,728</u>	<u>124,887</u>
Interest margin	10,879	17,696	194	(6,538)	22,231
Gain on disposal of financial instruments	3,045	770	-	3	3,818
Changes in fair value of financial instruments	10,715	25,041	34	-	35,790
Recovery for credit losses	<u>-</u>	<u>(257)</u>	<u>-</u>	<u>-</u>	<u>(257)</u>
Net financial income, including recovery (provision) for credit losses	24,639	43,764	228	(6,535)	62,096
Other income	<u>(200)</u>	<u>54,588</u>	<u>16,453</u>	<u>15,998</u>	<u>86,839</u>
Net financial and other income	24,439	98,352	16,681	9,463	148,935
Operating expenses	<u>5,521</u>	<u>53,772</u>	<u>19,388</u>	<u>16,766</u>	<u>95,447</u>
Profit (loss) before income taxes	18,918	44,580	(2,707)	(7,303)	53,488
Income taxes (recoveries)	<u>2,951</u>	<u>6,945</u>	<u>(422)</u>	<u>(1,818)</u>	<u>7,656</u>
Profit (loss) for the period	<u>\$ 15,967</u>	<u>\$ 37,635</u>	<u>\$ (2,285)</u>	<u>\$ (5,485)</u>	<u>\$ 45,832</u>
Total assets at September 30, 2014	<u>\$ 6,714,270</u>	<u>\$ 5,918,359</u>	<u>\$ 20,628</u>	<u>\$ 230,873</u>	<u>\$ 12,884,130</u>
Total liabilities at September 30, 2014	<u>\$ 6,302,890</u>	<u>\$ 5,451,627</u>	<u>\$ 1,498</u>	<u>\$ 221,614</u>	<u>\$ 11,977,629</u>
Total equity attributable to members of Central 1	\$ 411,380	\$ 466,732	\$ 9,253	\$ 9,259	\$ 896,624
Non-controlling interest	<u>-</u>	<u>-</u>	<u>9,877</u>	<u>-</u>	<u>9,877</u>
Total equity at September 30, 2014	<u>\$ 411,380</u>	<u>\$ 466,732</u>	<u>\$ 19,130</u>	<u>\$ 9,259</u>	<u>\$ 906,501</u>

The accounting policies of the segments are consistent with those followed in the preparation of the interim consolidated financial statements as disclosed in Note 3.

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26. 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.

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

	(Thousands of dollars)			
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>	<u>January 1,</u> <u>2013</u>
Standby letters of credit	\$ 223,349	\$ 208,533	\$ 184,743	\$ 216,353
Commitments to extend credit	\$ 3,649,410	\$ 3,141,956	\$ 3,312,499	\$ 3,272,293

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

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27. Financial instruments - fair value

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

(Millions of dollars)	Fair Value		Carrying Value		Unrealized Gain (Loss)	
	<u>September 30,</u>	<u>September 30,</u>				
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets						
Cash	\$ 123.55	\$ 53.42	\$ 123.55	\$ 53.42	\$ -	\$ -
Deposits with regulated financial institutions ¹	5.70	6.33	5.67	6.19	0.03	0.14
Investment securities ¹	11,142.05	9,873.34	11,142.05	9,873.34	-	-
Reinvestment assets under the CMB and IMPP Programs	139.80	539.08	139.80	539.08	-	-
Derivative assets	35.20	28.03	35.20	28.03	-	-
Loans ²	906.98	1,261.35	906.89	1,259.67	0.09	1.68
Secured loans to members	12.89	294.89	12.89	294.89	-	-
Other assets	518.08	320.43	518.08	320.43	-	-
Liabilities						
Deposits designated as trading	4,960.15	2,426.12	4,960.15	2,426.12	-	-
Derivative liabilities	107.17	153.79	107.17	153.79	-	-
Debt securities issued ¹	1,457.60	896.63	1,454.10	895.72	(3.50)	(0.91)
Deposits from members ¹	3,884.40	5,921.53	3,870.92	5,905.77	(13.48)	(15.76)
Obligations under the CMB and the IMPP Programs	505.44	1,133.38	505.44	1,133.38	-	-
Subordinated liabilities ¹	374.88	173.67	372.03	170.56	(2.85)	(3.11)
Securities under repurchase agreements	173.23	101.45	173.23	101.45	-	-
Other liabilities	534.59	756.96	534.59	756.96	-	-
Total					\$ (19.71)	\$ (17.96)

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

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28. Capital management

Central 1's capital levels are regulated under federal guidelines issued by 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 debt to regulatory capital, of 20.0:1 or less.

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

In order to ensure that Central 1 maintains regulatory capital sufficient to absorb sudden increases in borrowings or a reduction in capital due to mark-to-market fluctuations, Central 1 targets an operating borrowing multiple of 15.0:1 for its MRP business line to 12.0:1 for its ELP business line.

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

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

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29. Related parties

Transactions with key management personnel

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

(Thousands of dollars)

	<u>For the three months</u>	
	<u>ended</u>	
	<u>September 30,</u>	<u>September 30,</u>
	<u>2014</u>	<u>2013</u>
Mortgage loans outstanding at end of period	\$ 716	\$ 1,075
Maximum mortgage loans outstanding during the period	\$ 888	\$ 1,370

Mortgage loans to key management personnel bear interest at rates ranging from 2.50% to 2.84% and are secured over property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at period end.

Key management personnel compensation for the period comprised:

(Thousands of dollars)

	<u>For the three months</u>		<u>For the nine months</u>	
	<u>ended</u>		<u>ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Salaries and short-term employee benefits	\$ 960	\$ 733	\$ 2,714	\$ 2,796
Post-employment benefits	22	21	130	132
Termination benefits	<u>720</u>	<u>-</u>	<u>3,564</u>	<u>2,833</u>
	<u>\$ 1,702</u>	<u>\$ 754</u>	<u>\$ 6,408</u>	<u>\$ 5,761</u>

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

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

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Board of directors

During the three months ended September 30, 2014, the members of Central 1's Board of directors received aggregate remuneration of **\$134** thousand (September 30, 2013 - \$160 thousand) and for the nine months ended September 30, 2014 of **\$475** thousand (September 30, 2013 - \$561 thousand).

Significant subsidiaries

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

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

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

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

Investments in affiliates

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

	(% ownership of common shares outstanding)		
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2013</u>
Credential Financial Inc.	40%	40%	40%
Credit Union Central of Canada ("CUCC")	51%	51%	50%
CUMIS Group Limited	27%	27%	27%