Financial Review
2013

Table of Contents

Caution Regarding Forward-Looking Statements

From time to time, Central 1 makes written forward looking statements, including in this 2013 Annual Report, in other filings with Canadian regulators, in other reports to members, and in other communications. In addition, representatives of Central 1 may make forward-looking statements orally to analysts, investors, the media and others. Such statements may be considered to be forward-looking statements under applicable Canadian securities legislation.

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

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

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

Management's Discussion and Analysis

As at March 4, 2014

Overview

This Management's Discussion and Analysis (MD&A) reviews and analyzes the financial condition and results of operations of Central 1 Credit Union (Central 1) for the twelve months ended December 31, 2013, compared to those of the prior years.

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

These documents also include statements about the credit union systems in British Columbia and Ontario. The British Columbia credit union system is made up of all credit unions in British Columbia while the Ontario credit union system is made up of only those credit unions who have elected to become members of Central 1. In the charts and discussion presented in this report, the two provincial systems are individually referred to as the "British Columbia (or B.C.) credit union system" or "B.C. system" and the "Ontario credit union system" or "Ontario system". Where the term "system" appears without regional designation, it refers to Central 1's total membership, encompassing credit unions in both provinces.

Financial information for the British Columbia system has been provided by the Financial Institutions Commission of British Columbia (FICOM), the provincial credit union regulator, which makes available information provided to it by B.C. credit unions. Financial information for the Ontario system has been provided by the Deposit Insurance Corporation of Ontario (DICO), which makes available information it receives from Ontario credit unions. Central 1 has no means of verifying the accuracy of information provided by credit unions to FICOM or DICO or the subsequent compilation of that information by FICOM or DICO. This information is provided purely to assist the reader with understanding Central 1's results in their full context.

Financial information provided by B.C. credit unions to FICOM and by Ontario credit unions to DICO has been prepared using reporting templates developed by FICOM and DICO, respectively. The format and accounting principles used to complete these templates are not fully consistent with IFRS. As such, the financial statements for the B.C. and Ontario systems included within this report must be considered non-GAAP financial information. Central 1 is not able to reconcile the Net Operating Income (NOI) of the B.C. and Ontario credit union systems reported herein to an equivalent amount under IFRS. The NOI of the B.C. and Ontario credit union systems reported herein is not equivalent to Income from Continuing Operations as would be reported under IFRS.

Comparative information provided for the B.C. and Ontario credit union systems which was prepared under Canadian GAAP, prior to the adoption of IFRS, has not been restated. The adoption of IFRS allows entities to select certain accounting policies when more than one option is acceptable, or to make voluntary one-time transition elections. As such, certain transactions, including securitizations, may not be accounted for consistently by all credit unions in the B.C. and Ontario systems. Readers are cautioned to interpret the results of the B.C. and Ontario systems in this context.

Central 1 is considering applying 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 would continue to make available both its quarterly and audited annual statements on its website if it ceased to be a reporting issuer.

Business Profile

As the primary financial facility and trade association for the networks of independent credit unions in British Columbia and Ontario, Central 1 provides leadership, support and a multitude of services to its members/owners. Together, Central 1's active member credit unions, which numbered 43 in British Columbia and 90 in Ontario as at December 31, 2013, operate over 873 branches and deliver a wide range of financial services to more than 3.2 million members.

Central 1's services to its members generally fall into three categories: 1) centralized liquidity and funding services; 2) technology, payment and other services; and 3) government relations and trade services. In addition, Central 1, through its subsidiaries, provides insurance related services to its members.

Centralized liquidity and funding services are concerned with managing the system's mandatory reserve and excess liquidity pools 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, derivatives capabilities and other ancillary treasury services.

Central 1 maintains the Mandatory Reserve Pool (MRP) to provide 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 Excess Liquidity Pool (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.

Under the MemberDirect® brand, Central 1 develops and delivers "Direct Banking" products, which include online, mobile and phone banking, not only for member credit unions in British Columbia and Ontario but also for credit unions and other financial institutions across the country. MemberDirect® Services provide credit unions with personal electronic banking services that they offer to their individual members, mobile banking, phone banking, and business-to-business products for small and medium-size enterprises.

Central 1's 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.

Central 1 is a Group Clearer under the rules of the Canadian Payments Association (CPA), a Large Value Transfer System (LVTS) participant, and acts as the credit union systems' financial institution connection to the Canadian payments system. 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 the primary spokesperson for the British Columbia and Ontario credit union systems, identifying and promoting dialogue on relevant issues, providing government relations and legislative representation and promoting the systems' collective interests with all levels of government.

Subsequent to year-end, FICOM designated Central 1 as domestic systemically important financial institution (D-SIFI) within the Canadian credit union system. D-SIFIs are financial institutions whose failure could cause significant disruption to the wider financial system and economic activity.

In other aspects of its trade association role, Central 1 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.

While Central 1's primary focus is on servicing member credit unions, Central 1 has historically expanded the scope of its business to provide services to non-member credit unions and other Central credit unions across Canada, particularly in the payments area. In addition, Central 1 has diversified its external client base through contracts to provide payments processing and technology services to other financial institutions. The benefits resulting from increased volumes and fees flow through to member credit unions via lower direct fees on certain products or through higher dividends paid by Central 1. Central 1 also prices many of its services on a cost-recovery basis, rather than at levels that would enhance profitability.

Central 1, through its subsidiaries CUPP Services Ltd. and Stabilization Fund Corporation, provides insurance related services to its members. CUPP Services Ltd. is incorporated under the laws of British Columbia and is subject to the *Insurance (Captive Company) Act* of British Columbia. CUPP Services Ltd. provides professional liability and master property insurance to its member credit unions in British Columbia while Stabilization Fund Corporation provides limited loss prevention and rehabilitation services on behalf of member credit unions in Ontario.

Factors that May Affect Future Results

In addition to the risks described in subsequent sections of this MD&A, there are numerous factors, many of which are beyond Central 1's control and the effects of which can be difficult to predict, that could cause Central 1's results to differ significantly from its plans, objectives and estimates. Readers are cautioned that the list of risk factors below is not exhaustive and should be reviewed in light of the Caution Regarding Forward Looking Statements section of this MD&A.

Industry and Non-Corporate Factors

As the wholesale financial services provider to member credit unions, Central 1 is affected by prevailing economic and business conditions in Canadian capital markets, including the impact of continuing uncertainty in the financial markets. Factors such as interest rates, inflation, consumer spending and business spending not only impact residential real estate lending, the primary lending activity for B.C. and Ontario credit unions, but also influence demand for the majority of other credit union products and services.

Changes in statutes, regulations, and regulatory expectations that govern the financial industry's activities could also affect results for Central 1 and the system. While Central 1 takes what it believes to be reasonable measures to ensure compliance with governing statutes, laws, regulations, and regulatory expectations in the jurisdictions in which it conducts business, there can be no complete assurance that Central 1 will always be in compliance. Hence, it is possible that Central 1 could be subject to fines or other costs that could damage Central 1's reputation and have an adverse effect on earnings.

Central 1 continues to monitor and prepare for developments which may have a potential impact on Central 1's business and operations such as regulatory changes to capital and liquidity requirements related to the Basel Committee on Banking Supervision's global standards (Basel III), Over-the-Counter (OTC) derivatives reform, the Foreign Account Tax Compliance Act (FATCA), and changes to the Canadian payments system as a result of governmental reviews.

Central 1's earnings are affected by the monetary policies of the Bank of Canada and, to a lesser extent, by those of the U.S. Federal Reserve system. Monetary policy decisions determine the level of interest rates which, in turn, may have a significant impact on earnings.

The interest rate differential, or credit spread, between Government of Canada securities and those issued by other participants in fixed-income markets also affects Central 1's earnings. Central 1 earns income from accepting credit union deposits at rates based on Government of Canada securities and investing in securities issued by the Government of Canada, other levels of government and corporations. To the extent that credit spreads change, Central 1's interest margin, as well as the fair value of its financial instruments, would be impacted.

Central 1 also employs the use of interest rate derivatives to manage the interest rate risk on its investment portfolio. The use of these derivatives exposes Central 1 to mark to market volatility on its derivative instruments as the prevailing market rates on its pay-fixed interest swaps fluctuate relative to Government of Canada interest rates. This mark to market volatility affects Central 1's earnings as Central 1 is exposed to changes in credit spreads and swap spreads.

Jump to table of contents

System-Specific Factors
Demand for Central 1's products and services reflects the needs of credit unions and their members. Thus, the system's performance and competitive positioning in the marketplace are critical to Central 1's long-term success. For example, mandatory credit union deposits are a function of system assets, whereas loans to credit unions are driven by lending at the retail level. Consumer usage also dictates payment volumes.

There is strong competition for members/customers among Canada's financial services providers. The degree of such competition may have an impact on the performance of Central 1 and the system. Although credit unions enjoy strong member loyalty, retention is influenced by their ability to deliver products and services at competitive prices and service levels vis-à-vis other financial institutions. Non-financial companies can also offer members a range of competing service and product options.

In 2012, the federal government proclaimed legislative amendments to the *Bank Act* (Canada) to enable credit unions to continue under that *Act*, as federally-chartered credit unions or federally-chartered co-operative banks. In doing so, the government cited the need to encourage the continued growth and competitiveness of the financial sector and the enhancement of financial stability.

Subsequent to year-end, the Canadian Government announced their intention to provide temporary transitional support to eligible provincial credit unions that have provincial acceptance to move to the federal framework.

Corporate-Specific Factors
As the primary liquidity provider to its member credit unions in B.C. and Ontario, Central 1's financial performance is heavily influenced by events in the system. The impact on Central 1's financial position of one or more of Central 1's members exercising their right to continue under the *Bank Act* cannot be readily determined. In such cases, Central 1's deposit base could decline since these credit unions would no longer be bound by either British Columbia provincial regulation or contractual agreements to maintain their mandatory deposits with Central 1 as described in the Liquidity Management section.

FICOM has provided Central 1 with expectations related to the investment policy for the MRP and associated borrowing multiple requirements for both the MRP and ELP. These expectations reflect the important role Central 1 plays in the stability of the credit union system. FICOM's intent with their expectations is to ensure that Central 1 can support credit union liquidity requirements, including under stressed conditions, and to ensure that Central 1's risk profile and corresponding need for capital support remain within the appetite and tolerance level of its members. Subsequent to year-end FICOM confirmed requirements for the borrowing multiple for Central 1's MRP and ELP business lines as well as a duration limit on investments held in the MRP business line. The borrowing multiple requirements are described in the Capital Management and Capital Resources section below.

There can be no assurance that Central 1's credit rating and ratings outlook will not be lowered by Standard & Poor's or DBRS, or that these ratings agencies will not issue adverse commentaries about Central 1. Lower credit ratings could increase Central 1's funding costs or impede its ability to enter into capital market transactions.

Strategic risk is the risk that the organization or particular business areas will make inappropriate strategic choices, or will be unable to successfully execute selected strategies or related plans and decisions. Central 1's future performance is also dependent on its ability to attract, develop and retain key management personnel.

Central 1 is exposed to operational and infrastructure risks. Given the high volume of transactions Central 1 processes on behalf of its members and external organizations, shortcomings in its internal processes could lead to financial and reputational damage. Furthermore, although Central 1 has contingency and business continuity plans, natural disasters, power or telecommunications disruptions, acts of terrorism, physical or electronic break-ins or other events could adversely impact Central 1's ability to provide services to its member, damage Central 1's reputation or otherwise adversely impact Central 1's ability to conduct business.

Jump to table of contents

Other Factors

Other factors which could affect actual results include changes in accounting standards, including their effect on Central 1’s accounting policies, estimates and judgments. Central 1 may be adversely impacted by the failure of third parties to comply with their obligations to it as such obligations relate to the handling of personal information, or failure to prevent fraud.

Risk Management

In the third quarter of 2012, Central 1 contracted for a review of its liquidity and funding, risk, and capital management and their related governance. The review was completed in January 2013 and during the year Central 1 implemented many of the review’s recommendations with the aim of improving and enhancing Central 1’s risk management framework to meet evolving practices in the financial services sector.

Central 1 manages its risk at both the enterprise and the business levels. Its risk management framework is set out in its corporate policies and operational procedures, and is based upon the “three lines of defense” model. The First Line consists of business and operations management, which is responsible for owning and managing the risks incurred as a result of their activities. The Second Line encompasses risk oversight and compliance functions that are responsible for enabling and overseeing an effective control environment, and for monitoring compliance with established risk tolerances, limits, and boundaries. The Third Line is Internal Audit, which provides independent, objective evaluation of Central 1’s risk management and control framework.

Central 1 has adopted the principle of “Dual Adjudication,” whereby all risk exposures are recommended by the First Line and concurred with by the Second Line. This ensures that any potential exposure both supports business objectives and is independently reviewed.

The Board of Directors has overall responsibility for the adoption of, implementation of, and adherence to Central 1’s risk management framework and oversees the quality and effectiveness of Central 1’s policies and procedures. In 2013, Central 1’s Board of Directors established a Risk Review and Investment & Loan Committee (RRILC), and delegated their responsibility for oversight over Central 1’s enterprise-wide risk management framework including related methodologies, policies, procedures and practices implemented to manage key risks. Prior to the RRILC’s establishment, responsibility for enterprise-wide risk management was delegated to the Audit and Finance Committee (A&FC) (previously the Audit Committee).

In 2013, the Board of Directors revised and expanded Central 1’s Risk Appetite Statements (RAS). The RAS collectively establish the organization’s qualitative and quantitative risk appetite, defined as the amount of risk that Central 1 is willing to take in pursuit of its strategic objectives. The RAS cover all of Central 1’s main risk categories, including Liquidity Risk, Market Risk, Credit and Counterparty Risk, Legal and Compliance Risk, Business Risk, Operational Risk and Reputation Risk. The RAS will be reviewed and approved by the Board on an annual basis.

During the year, Central 1 redesigned its policy framework to reflect current best practice within the financial services sector. The new framework provides clear governance requirements, a uniform structure for writing policy, and a list of required policies classified by type. All policies must reflect and align with Central 1’s RAS. By the end of 2013 all of Central 1’s policies had been restructured according to the new framework and approved by the Board.

In June 2013, Central 1 appointed a Chief Risk Officer (CRO) to the Executive Management Team (EMT). Reporting to the President & Chief Executive Officer (CEO), the CRO leads Central 1’s independent risk oversight and internal control functions, assures adherence and consistency of strategic initiatives with the organization’s risk appetite and tolerances, and maintains a sound enterprise-wide integrated risk management governance framework.

In 2013, Central 1 established the Management Risk Committee (MRC), which is responsible for overseeing risk management at Central 1. The MRC assesses and monitors the significant risks to which Central 1 and it members are exposed, and ensures that appropriate policies, procedures and controls are in place to manage these risks. It also reviews and recommends actions to ensure a sound and consistent risk profile, including recommendation and approval of new products and activities consistent with Central 1’s risk profile.

Jump to table of contents

Central 1's Internal Risk Management department is responsible for overseeing and implementing the organization's Enterprise Risk Management (ERM) and Stress-Testing programs throughout Central 1. ERM provides Central 1 with the necessary framework to identify, assess, measure, accept, monitor, and manage the risks faced by Central 1 in the course of fulfilling its mission. Central 1's Stress-Testing program employs scenario and sensitivity analysis to inform decision-making, planning, and risk management at the enterprise and business levels within the organization.

As part of Central 1's ERM program, the MRC regularly refreshes the register of key risks faced by the organization at an enterprise level. Top risks are identified, and for each one the likelihood of occurrence and impact upon Central 1 are assessed. This Key Risk Register forms the basis for Central 1's control and risk activities throughout the year, and informs business planning.

Central 1 has established a stress testing framework that employs scenario and sensitivity analysis to inform decision-making, planning, and risk management at the enterprise and business levels within the organization. During 2013, Central 1 enhanced and extended its stress testing activities to meet the organization's needs and to reflect industry best practice.

In 2013, Central 1 initiated a review and redesign of its risk management organization and staffing in order to position Central 1 to effectively implement the enhanced risk management framework. The new risk management structure will form the core of Central 1's Second Line, and will be implemented in Q1 2014.

Throughout 2013, Central 1 evaluated the design and tested the effectiveness of entity level, disclosure, operational, and information technology controls relating to Central 1's financial reporting. Central 1 determined that these controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

Central 1's management, with the support of the Board's A&FC, continues to undertake rigorous testing of the effectiveness of internal controls over financial reporting, even though such testing is not mandated by current securities regulatory requirements in Canada. Central 1 continues with this process as it provides a further layer of assurance on the control framework surrounding financial reporting.

In 2013, Central 1 maintained ISO 27001 certification of its direct banking services, payment services, registered savings plan trusteeship services, and bonding and insurance programs. ISO 27001 is an internationally recognized standard for information security management. Maintaining certification requires an annual on-site audit by the certification body to confirm that Central 1 continues to have a robust information security management program that effectively manages and safeguards the confidentiality, integrity and availability of information assets.

It is the role of Central 1's Disclosure Committee to ensure that all material financial information, as defined in Central 1's Disclosure Policy and released by Central 1 to its members, investors in its securities and regulatory authorities, is accurate, complete, and presents fairly the financial position of Central 1 and the results of its operations, in all material respects. All such information is required to be disclosed in a timely manner, and in a format in accordance with the requirements established by applicable laws and regulatory authorities. The committee is accountable to the CEO and, through the CEO, reports to the A&FC of the Board of Directors.

Central 1's approach to managing and mitigating specific types of risk is as follows:

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 is also party to a legal agreement with other provincial centrals under the Inter-Central Liquidity Agreement (ICLA), whereby participating central credit unions have agreed to provide liquidity to one another in the event of a localized market disruption.

The MRP is managed according to conservative liquidity risk criteria. The portfolio consists primarily of unencumbered, high-quality liquid securities that can be readily sold or pledged in both normal and stressed market conditions. Central 1 at all times maintains sufficient assets in the MRP to fund all credit union mandatory deposits. Going forward, the MRP will also be managed in line with the duration limit specified by FICOM.

Jump to table of contents

The ELP is managed according to liquidity risk criteria aimed at ensuring that Central 1 can meet all of its liquidity and pledging commitments under normal and stressed conditions.

Other key elements of Central 1's liquidity risk framework include:

- diversification of funding liabilities by source, type of depositor, type of instrument and term;
- regular performance of stress tests to evaluate disruptions on Central 1's and the systems' liquidity positions;
- regular measurement and modelling of system liquidity in conjunction with key credit unions; and
- maintenance of a liquidity contingency plan that specifies an approach for responding to a liquidity event.

(See also Liquidity Management, page 33)

Market Risk

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

Central 1 manages its exposure to market risk through a range of governance and management processes. The RRILC oversees Central 1's market risk management framework. Central 1's policies detail the measurement of market risk, and establish exposure limits in keeping with Central 1's overall risk appetite. Central 1 will not incur market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill its primary mandate of safeguarding system liquidity. Central 1 has established separate market risk appetites and limits for each of the MRP and the ELP. The Risk Management Group independently monitors exposure against limits, investigates any breaches and reports them at the appropriate level for review and action. This management framework is complemented by a series of rigorous stress test scenarios that are run on a regular basis.

Interest rate risk is the potential adverse impact on Central 1's earnings and the Fair Value of Equity due to changes in interest rates. As most of its balance sheet is made up of interest-bearing assets and liabilities with different maturity dates, Central 1 potentially has significant exposure to interest rate changes.

Central 1 regularly monitors its exposure to interest rate changes and their potential effects on financial margin. Central 1's interest rate risk policy defines acceptable percentage limit changes in Interest margin income and Fair value of equity in relation to parallel shifts in the yield curve. Central 1 also analyzes the impact of interest rate volatility on net interest income, using Monte Carlo income simulations, and sets statistical limits on the variance of net interest income in such simulations.

Chart 1(a) below summarizes carrying amounts by the earlier of their contractual repricing or maturity dates. The extent of Central 1's exposure to interest rate changes at each of the last two year-ends is illustrated in the interest sensitivity chart below *Chart 1(b)*. *Note 40* to the consolidated financial statements provides additional information on the fair value of financial assets and liabilities compared to their carrying value.

Chart 1 (a) – Carrying Amounts by Earlier of Contractual Repricing or Maturity Date

December 31 (Millions of dollars)	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years	Not Rate Sensitive	Total
Total Assets	$ 3,771.3	$ 1,083.3	$ 6.484.6	$ 184.6	$ 670.6	$ 12,194.4
Total Liabilities and Equity	3,311.5	2,642.5	4,747.7	–	1,492.7	12,194.4
On-Balance Sheet Gap	459.8	(1,559.2)	1,736.9	184.6	(822.1)	–
Off-Balance Sheet Gap	528.3	305.2	(686.3)	(147.2)	–	–
Total Gap 2013	**$ 988.1**	**$ (1,254.0)**	**$ 1,050.6**	**$ 37.4**	**$ (822.1)**	**$ –**
Total Gap 2012	$ (1,320.3)	$ 101.5	$ 2,087.8	$ (36.2)	$ (832.8)	$ –
Total Gap 2011	$ (74.8)	$ (55.7)	$ 914.8	$ (64.8)	$ (719.5)	$ –

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

Management computes the Fair Value of Equity as the sum of Equity in the Statement of Financial Position and the net unrealized gains (losses) on financial instruments as indicated in *Note 40* of the Consolidated Financial Statements. The fair value of Central 1's Equity as at December 31, 2013 was $847.5 million (December 31, 2012 - $769.0; December 31, 2011 - $668.3 million).

The following chart summarizes the impact of the yield curve shifts as at December 31, 2013:

Chart 1 (b) – Interest Rate Sensitivity

December 31 (Thousands of dollars)	Interest Margin		Fair Value of Equity	
	Amount	Percentage of base forecast	Amount	Percentage of base forecast
Before Tax Impact of:				
200 bps increase in rates	$ 3,666	14.8 %	$ (18,990)	(2.4) %
200 bps decrease in rates	$ (1,253)	(5.1) %	$ 11,931	1.5 %

Jump to table of contents

If interest rates were to immediately shift upward by 200 basis points, the fair value of Central 1's financial assets would decline more than its financial liabilities would increase. An increase in interest rates would therefore result in a decrease in the fair value of equity.

Credit spread risk arises from the possibility that changes in credit spreads will have a negative effect on the value of financial instruments. Central 1's policies establish overall credit spread risk limits for the entire investment portfolio, as well as separate sub-limits for individual books. Credit spread risk is calculated daily by a proprietary, independently reviewed model, and compliance with limits is monitored by Internal Risk Management. Central 1 also regularly measures the credit spread impact of a series of extreme-yet-plausible stress tests on its portfolio. Included in these tests are scenarios based on the Lehman crisis and on the "worst case" market event from the previous 3 years (based on a 95% confidence interval). Management uses the outcome of these stress tests to aid decision-making, and regularly reports the results to the Board of Directors.

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 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. *Note 39* to the consolidated financial statements provides additional information regarding Central 1's foreign currency exposure.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of an obligor, for any reason, to fully honour its financial or contractual obligations to Central 1. Within the ELP, Central 1 incurs credit risk in the following ways:

- lending funds to member credit unions;
- issuing guarantees and letters of credit on behalf of member credit unions;
- participating in commercial loan syndications with member credit unions;
- entering into value-exchange financial contracts (e.g. interest rate swaps) with market counterparties and member credit unions;
- providing payment services to member credit unions and corporate clients; and
- settling payments as Group Clearer in Canada's Large Value Transfer System and Automated Clearing Settlement System.

Central 1 also incurs credit risk by investing the proceeds from MRP and part of the ELP in debt instruments issued by government, financial, and other corporate entities.

Central 1's policies establish the parameters within which the organization manages its credit risk. These policies are implemented through a number of key business procedures. Together, the policies and procedures form a framework that includes:

- application of sound, stringent lending and/or funding criteria to all credit exposures prior to their acquisition;
- clearly defined management and policy limits on the amount, types, and concentrations of credit risk;
- regular evaluation and assessment of existing credit risk exposures;
- continuous monitoring of credit exposures so as to promptly identify deteriorating situations and take appropriate action; and
- appropriate pricing of loans and other credit-intensive products

Central 1's Board of Directors delegates credit risk approval authority through the CEO to the Management Credit Committee (MCC), which is responsible for overseeing and approving all credit risk exposure incurred by the organization. In turn, the MCC delegates lower approval authority limits to qualified management individuals. Any credit exposure that exceeds the authority of the MCC is referred to the Board for approval.

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. Secured loans to members related to the Canada Mortgage Bond program consist of loans to credit unions secured by insured residential mortgages and, as such, credit risk on these balances is also considered minimal.

Commercial lending is primarily through a loan syndication program, where Central 1 may participate in loan syndication in response to the needs of local member credit unions. Commercial loans are evaluated by skilled commercial lenders and are adjudicated by a separate Credit Risk Management Department, under the direction of the MCC. Annually, the status of each loan is reviewed in the same manner as a new credit proposal.

The Credit Risk Management Department is responsible for monitoring problem commercial loans, ensuring that appropriate action is taken and that allowances are adequate to cover incurred losses. Specific allowances are established for exposures based on analysis of individual accounts to reduce the carrying value of an impaired loan to its estimated realizable amount. Collective allowances for loss are also established to absorb estimated losses that have not been allocated to specific assets.

Separate credit risk tolerances have been established for the securities investment activity within the MRP and the ELP. These include issuer concentration limits, minimum credit quality criteria, and restrictions on permitted securities. The credit risk profile of Central 1's investment portfolio is low, which correlates closely with the organization's practice of maintaining a highly liquid investment portfolio to mitigate liquidity risk. The credit quality of securities held within the MRP is top tier, while securities held in the ELP are all of strong investment grade quality *(Chart 9, page 29).*

Counterparty Risk is managed through the selection of strong counterparties, plus the implementation of industry-standard documentation (e.g. ISDA Master Agreements), which includes collateralization agreements with all of its major bank swap counterparties. Exposure limits are approved for individual issuers/counterparties, as well as for obligor sectors (e.g. provincial governments, banks, corporates).

In providing payment services, Central 1 is exposed to credit risk when it incurs a payment obligation on behalf of its member credit unions and corporate clients prior to receipt of covering funds. Central 1 mitigates this risk by reviewing and approving credit risk limits on its clients, by taking security, and by implementing operational control procedures to manage the amount of credit risk incurred.

In its role as Group Clearer, Central 1 is exposed to the credit risk of another LVTS/ACSS participant defaulting. This risk is strongly mitigated by the obligation of each participant to post collateral in support of its payment activity. However, notable residual credit risk remains, which Central 1 manages by approving exposure limits for other participants, based on an assessment of their creditworthiness. In providing payment services to the credit union centrals of Alberta, Manitoba, and Saskatchewan (the Prairie Centrals), Central 1 guarantees payment of payment items drawn on or payable by the Prairie Centrals and their member credit unions. Each of the Prairie Centrals in return provides Central 1 with a guarantee for those payments.

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 flawed or improperly functioning processes, people and systems. It includes legal and regulatory risk. Generally, operational risk is measured in terms of actual losses that have occurred. An operational risk event can also result in increased liquidity risk, market risk, or credit risk. While the financial impact associated with operational risk can be significant, it is equally important to recognize the less identifiable and quantifiable non-financial impacts. Real or perceived changes in an institution's credibility can damage its reputation, image, and stakeholder confidence, thereby negatively affecting the institution's results in the future.

Central 1 manages this type of risk through implementation policies and associated procedures that are fundamental to its operating infrastructure. Elements include:

- developing and maintaining a comprehensive system of internal controls encompassing segregation of functional activities, managerial reporting and delegation of authority;
- continuous monitoring, evaluation, and improvement of Central 1's operational practices;
- selection and training of highly qualified staff, supported by policies that provide for skills upgrading, clear authorization levels and adherence to an employee code of conduct;
- maintaining a comprehensive portfolio of insurance to reduce the impact of any potential losses; and
- contingency business resumption plans for activation in response to systems failure or catastrophic events, including off-site data storage and back-up processing capabilities for all critical operations.

As well as having the above measures in place, Central 1's policies provide for regular, ongoing review of its practices and procedures by internal audit teams, technology systems security personnel and management personnel. External resources, when required, also supplement the internal reviews. With the increasing exposure to electronic/technological risk, Central 1 has implemented real-time intrusion detection monitoring of its remote banking applications, which are accessed by credit union members across Canada. In addition, both provincial and federal regulatory agencies undertake periodic reviews of Central 1's operations and contingency plans.

Reputation Risk

Reputation risk is the risk of a negative impact to Central 1 resulting from a deterioration of stakeholders' trust in the organization. These potential impacts include revenue loss, litigation, and regulatory action. Heightened reputation risk is generally caused by the crystallization of other risks.

Central 1 recognizes that its reputation is among its most important assets, and considers reputational impact in all of its business and planning practices. Integrity and ethical conduct are core values for Central 1, and these are fostered at the most fundamental levels of the organization through the adherence of each employee to Central 1's Code of Conduct

Overall Performance

In 2013, Central 1 reported Net financial income of $88.7 million and Profit for the year of $68.5 million. Net financial income was down $2.7 million from the prior year, as Interest margin decreased by $6.6 million to $33.3 million, partially offset by net changes in the fair value of financial instruments which increased by $3.9 million to a gain of $55.4 million.

The following summaries of the economic environment, the state of financial markets and performance by both provincial systems in 2013 offer a context for interpreting Central 1's year-over-year results and an insight into its future.

The Economic Environment

Since the financial crisis hit in 2008, the global economy has struggled to maintain positive momentum reflecting the extended European recession, U.S. fiscal consolidation and a deceleration in China. According to International Monetary Fund (IMF) estimates, global growth slowed from 3.2 per cent in 2012 to 3.0 per cent in 2013, well below the average of more than 3.6 per cent since 2000.

The U.S. economic outlook has brightened for 2014. Private sector demand will continue to improve while political uncertainty has faded. The Bipartisan Act of 2013 was signed into law at the end of 2013 which sets spending levels and lowers sequestration for the subsequent two years. This measure lessens fiscal drag for 2014 and sharply lowers the chances of another government shutdown.

A soft external economy limited GDP growth in Canada in 2013 to a subdued 1.7 per cent, nearly identical to the previous year. The long-awaited increased growth in exports and investment failed to materialize in 2013, while government spending and housing market activity steadied. Growth is forecast to improve to 2.3 per cent in 2014 as exports are anticipated to pick up due to improvements in the U.S. and a Canadian dollar that has depreciated substantially against the U.S. greenback since 2011.

The Bank of Canada remained on the sidelines for another year and maintained the overnight rate at one per cent as economic growth and inflationary pressure evolved below expectations. The Bank will delay any rate hike until mid-2015, when it initiates the first 25 bps increase on the long road to rate normalization.

Financial Markets

Equity markets were able to shrug off the Federal Reserve's (Fed's) Taper, a sixteen day US Government shutdown, a forced bailout of Cyprus by the European Union and IMF and ever-present geopolitical tensions in the Middle East, as the S&P 500 ended the year nearly thirty per cent higher. Japanese Prime Minister Abe's increased inflation, fiscal stimulus and government reforms helped boost Japanese growth, depreciate the Yen and propel the Nikkei to a 56.7 per cent annual gain. It was a record year for US stock fund inflows, attracting over $350 billion in new money as investors risk tolerance increased; while it was a record year for bond fund outflows of $86 billion as the "Great Rotation" took hold at the retail level. However, that bond outflow figure is dwarfed by the Fed's Quantitative Easing (QE) programs as it is roughly the same amount of securities the Fed purchased in only one month last year.

Government of Canada yields ended the year higher as the yield curve steepened, with longer-term bond yields rising more than shorter maturities. It was a record year for Canadian corporate issuance as issuers took advantage of historically low coupon rates to term out debt and raise funds to repurchase stock. Credit spreads narrowed over the year as volatility declined and corporate balance sheets remained healthy.

Inflation in the US and Canada continued to decline over the year as significant economic slack remains in both economies. The Canadian Dollar ended the year at $1.06 versus the US Dollar, weakening seven cents from the previous year-end.

British Columbia

B.C.'s economy tread water in 2013 as tempered global and domestic conditions reduced growth to an estimated 1.1 per cent, down from 2012's already sluggish pace of 1.5 per cent. A backdrop of shallow global demand limited the rotation towards export-led economic growth, while province-specific factors including election-year uncertainty, the reversal of the harmonized sales tax and weak population gains also weighed on business confidence, hiring and housing market activity.

B.C.'s export performance was one of the few bright spots for the provincial economy but even so, gains were modest. Following a 2012 contraction, current-dollar merchandise export volume to international markets expanded by more than five per cent, lifted by agriculture, forestry and raw metals and minerals shipments. The U.S. housing market recovery which provided a boost to demand and prices for lumber and other solid wood products was largely responsible for the topline export increase.

Private-sector hiring stalled with the weak demand environment. Employment eased through 2013 pushing average annual employment down 0.2 per cent compared to a national expansion of 1.3 per cent. Unemployment managed to hold steady at a respectable 6.6 per cent of the labour force.

Soft labour market conditions contributed to low population growth of less than one per cent as plentiful opportunities and wage gains in neighbouring Alberta and Saskatchewan remained an attractive draw for B.C. residents.

B.C.s tepid labour market and low population gains remained unsurprisingly a drag on consumer demand and housing activity. While the pace of home sales rebounded to a level near the ten-year average by year-end, market conditions were subdued. Annual MLS® sales jumped to 72,900 units, a near eight per cent gain from 2012, but sales remained in line with the low post-recession range. A modest improvement in market conditions and a shift in the geographical and product composition of sales factored into an average MLS® price increase of four per cent to $537,400.

New home construction added little to economic growth as housing starts held at a comparable level relative to 2012 and residential investment activity eased.

Households were predictably cautious on the spending front. Annual retail sales growth fell below two per cent in 2013 with a stationary early-year trend giving way to a modest improvement by year-end.

Ontario
Ontario posted another year of below average growth in 2013 as a delayed turnaround in export markets, flat government spending, and pullback in housing investment dampened provincial activity. Despite some mid-year momentum, annual economic growth struggled at about 1.3 per cent to remain in line with the performance observed in 2012.

Following 2012's auto-sector led rebound, Ontario's export performance at best stagnated in 2013. Annual dollar-volume rose by less than one per cent and what little gain there was reflected marginally higher export prices. In contrast, import volume continued to outpace export gains, contributing to further deterioration in the provincial trade position.

Ontario's weak export performance was attributable to the high-value manufacturing sector. Despite a continued rebound in U.S. new vehicle sales, motor vehicle and related parts and equipment exports experienced a reversal in fortune. Export dollar volume and shipments declined, adding to steep declines in the export of other transportation-related equipment. Re-shoring of production to the U.S. and increased investment in Mexico contributed to this delinking of trends, a competitive challenge unlikely to be resolved in the near future. Tempered export contributed to pullback of about 1.5 per cent in manufacturing sales. Gains in consumer goods and agriculture and food exports offset this decline.

Despite export weakness, private investment in productivity enhancing machinery and equipment strengthened. Ontario managed to post moderate employment growth despite a tempered economic backdrop. Average employment expanded by 1.4 per cent from 2012. Unemployment fell to 7.5 per cent of the labour force which was the lowest since 2008.

Modest improvements in the labour market were insufficient to stem a westward outflow of residents. Ontario's population growth decelerated to 0.9 per cent, marking the slowest pace since 2009. The province recorded a net outflow of more than 21,000 residents to the rest of Canada doubling 2012's net loss. Residents continued to flock to Alberta and its stronger economy which attracted 22,000 people more than it lost to Ontario. International migration remained the key driver of population growth but the flow eased nearly ten per cent on fewer non-permanent residents.

Housing market conditions held up in 2013 well despite soft economic conditions. MLS® home sales edged up slightly from 2012 to about 198,700 units, marking 0.5 per cent increase from 2012 and comparable to activity observed in recent years. The average price continued to rise through 2013, contributing to an annual price gain of near 5.0 per cent to $402,550.

Ontario's new home market took a breather following a sharp Toronto condominium-led surge in 2012. Provincial starts fell about 20 per cent in 2013 to about 60,000 units. The sharp decline in housing starts contributed to a pullback in residential investment spending which negatively impacted economic growth.

Economic growth is forecast to rebound in 2014 to 2.2 per cent remain but lag the national performance. Growth will be led by modest export gains and increased business investment, reflecting further improvements in the U.S. economy and the lower Canadian dollar, but hampered by fiscal drag.

British Columbia Credit Union System Performance 2013
The B.C. credit union system continued to grow and to be profitable in 2013, although higher income tax expense cut into earnings. B.C. system Net Operating Income (NOI) totaled $314.5 million, little changed from $315.8 million in 2012. Return on equity (ROE) was 7.1 per cent, down 100 basis points (bps) from 2012. System Net income totaled $313.6 million, up 34 per cent year-over-year, largely due to a capital gain realized by a member credit union on the sale of one of their subsidiaries.

NOI changed minimally as slightly lower income from financial margin and subsidiaries was largely offset by the combination of higher non-financial income and lower non-financial and loan loss expenses. Financial margin declined 0.6 per cent in 2013 even though financial assets increased by 3.2 per cent as the spreads narrowed due to loan yield declining more than the yields on deposits and borrowings. Subsidiary income declined due to divestment which added to capital gains. Growth in non-financial income was led by trading and wealth services. Lower non-financial expenses were led by professional services, data processing and information technology costs.

Assets of the B.C. system totaled $59.0 billion at the end of 2013, up $1.8 billion or 3.1 per cent from a year earlier. Asset growth was concentrated in personal mortgages, up 2.9 per cent to $34.1 billion, and commercial

Jump to table of contents

mortgages, up 6.2 per cent to $12.4 billion. Cash and liquid investments fell 2.7 per cent to $6.9 billion while commercial loans and leases increased 14.0 per cent to $1.2 billion. Securitizations increased 26.1 per cent to $0.7 billion, while personal loans declined 3.0 per cent to $1.2 billion.

Asset growth was financed largely with non-registered demand deposits, up 5.8 per cent to $18.8 billion and non-registered term deposits, up 2.6 per cent to $24.8 billion. Registered deposits increased 7.0 per cent to $8.3 billion. Borrowings declined 25.6 per cent to $2.3 billion, while equity rose 9.6 per cent to $3.7 billion, largely on retained earnings.

The 90-day delinquency rate at year-end stood at 0.47 per cent of the loan portfolio, down three basis points from a year earlier. Net loan loss expense for the year was 0.05 per cent of the loan portfolio, down from 0.07 per cent a year earlier. Reserves held against loan losses totaled 0.32 per cent of the portfolio at year-end, down five basis points.

The system's regulatory liquidity and capital ratios remained strong in 2013 and well above regulatory minimums for individual credit unions. The pooled liquidity ratio stood at 9.9 per cent at year-end, down from 11.2 per cent a year earlier. The risk-weighted capital adequacy ratio finished the year at 14.7 per cent, up from 13.8 per cent at the end of 2012.

B.C. credit union membership stood at 1,877,940 at the end of 2013, a year-over-year gain of 0.2 per cent or 3,948 members. Province-wide staffing totaled 8,376 full-time equivalent positions, a 0.3 per cent increase of 25 positions. B.C. had 43 local credit unions at year-end; there was one merger in 2013. The number of branches in B.C. was little changed at 371 versus 369 in 2012, while the system's ATM network totaled 565, up from 555 a year earlier.

Ontario Credit Union System Performance 2013

Aggregate operating profit and return on equity of Ontario credit unions increased in 2013. System NOI totaled $160.5 million, up 9.4 per cent from 2012, while ROE for 2013 was 6.7 per cent, up 22 basis points from a year earlier. The increase in earnings reflects higher interest margin and non-financial income. Non-financial expenses were $160.5 million, which is an increase of $13.8 million from 2012, but most of that increase was offset by lower net loan loss expense.

Net interest income increased 2.7 per cent in 2013 as loan growth of 9.9 per cent outweighed a decline in loan yields of 22 basis points. Loan growth was driven by residential mortgages and commercial loans and mortgages. The lending spread declined as loan yield fell 22 basis points while the cost of deposits declined by only 9 basis points.

Asset growth for the Ontario system was strong over the year, with assets of Central 1's Ontario members totaling $33.0 billion at year end, up 7.4 per cent year-over-year. System deposits totaled $28.0 billion at the end of 2013, up 6.6 per cent from 2012. Deposit growth was mostly in term, demand and registered products. System borrowings totaled $2.3 billion at year end, up 19 per cent from a year earlier. Members' equity capital totaled $2.2 billion at year end, up 6.3 per cent year-over-year, largely due to retained earnings growth. The addition of ComTech Credit Union to Central 1's Ontario system added $206 million to aggregate year-end assets, accounting for 0.7 per cent of asset growth.

The system saw a decrease in loan costs in 2013 as the overall 90-day delinquency rate was down 6 basis points to 0.61 per cent at year end, while total loan loss reserves ended the year at 0.35 per cent of the portfolio, down 7 basis points year-over-year. The rate of loan loss expense was 11 basis points in 2013, down 6 basis points from 2012.

The system's liquidity and capital ratios remained well above regulatory minimums for individual credit unions in 2013. The regulatory liquidity ratio ended the year at 11.1 per cent, down from 13.0 per cent a year earlier. Class 2 credit unions, which represent 99.0 per cent of the system's assets, finished the year with a risk-weighted capital adequacy ratio of 13.2 per cent, down 13 basis points year-over-year.

Ontario system membership increased 1.2 per cent in 2013 to 1,326,001. Staffing totaled 5,620 full-time equivalent positions at year end, up 1.6 per cent. There were 90 credit unions in Ontario affiliated with Central 1 at year end, down 10 from a year earlier due to mergers and dissolutions. The number of branches decreased to 502 at the end of 2013 from 505 a year earlier, while the system's ATM network totaled 588, up from 570.

Jump to table of contents

Chart 2 below shows the loan composition of both the B.C and Ontario systems for the last three years.

Chart 2 - Provincial Credit Union Systems - Loan Composition (Unaudited)

B.C. Credit Union System

(Millions of dollars)	2013		2012	%	2011	%
Residential Mortgages	$ 34,090	67.0 %	$ 33,144	67.8 %	$ 31,065	68.4 %
Commercial Mortgages	12,426	24.4 %	11,699	23.9 %	10,298	22.7 %
Personal Loans	1,189	2.3 %	1,154	2.3 %	1,191	2.6 %
Lines of Credit not secured by mortgages	1,229	2.4 %	1,251	2.5 %	1,221	2.7 %
Other Commercial Loans	964	1.9 %	825	1.7 %	694	1.5 %
Leases	249	0.5 %	240	0.5 %	220	0.5 %
Securitizations	747	1.5 %	592	1.3 %	719	1.6 %
Total	$ 50,894	100.0 %	$ 48,905	100.0 %	$ 45,408	100.0 %

Ontario Credit Union System

(Millions of dollars)	2013	%	2012	%	2011	%
Residential Mortgages	$ 14,921	52.5 %	$ 13,698	53.0 %	$ 12,250	53.9 %
Commercial Mortgages	8,001	28.2 %	7,283	28.2 %	6,330	27.9 %
Personal Loans	2,119	7.5 %	2,072	8.0 %	1,868	8.2 %
Lines of Credit not secured by mortgages	–	0.0 %	–	0.0 %	–	0.0 %
Other Commercial Loans	1,241	4.4 %	1,163	4.5 %	1,058	4.6 %
Leases	–	0.0 %	–	0.0 %	–	0.0 %
Securitizations	2,094	7.4 %	1,621	6.3 %	1,218	5.4 %
Total	$ 28,376	100.0 %	$ 25,838	100.0 %	$ 22,724	100.0 %

B.C. and Ontario Credit Union Systems Combined

(Millions of dollars)	2013	%	2012	%	2011	%
Residential Mortgages	$ 49,011	61.8 %	$ 46,843	62.7 %	$ 43,315	63.6 %
Commercial Mortgages	20,427	25.8 %	18,982	25.4 %	16,628	24.4 %
Personal Loans	3,308	4.2 %	3,226	4.3 %	3,059	4.5 %
Lines of Credit not secured by mortgages	1,229	1.5 %	1,251	1.7 %	1,221	1.8 %
Other Commercial Loans	2,205	2.8 %	1,988	2.6 %	1,752	2.6 %
Leases	249	0.3 %	240	0.3 %	220	0.3 %
Securitizations	2,841	3.6 %	2,214	3.0 %	1,937	2.8 %
Total	$ 79,270	100.0 %	$ 74,743	100.0 %	$ 68,132	100.0 %

Financial Overview

During the year, Central 1 recorded realized gains of $26.1 million on the sale of financial instruments. Net unrealized gains on trading financial instruments were $29.3 million and, taken together, Central 1 recorded an overall gain of $55.4 million on its financial assets and liabilities.

Central 1's total assets at year-end amounted to $12.2 billion, a decrease of $2.0 billion or 13.8 per cent from 2012. This primarily reflects the maturing of obligations arising from securitization activities under the Canada Mortgage Bond (CMB) program undertaken prior to 2010 as described in Note 3(g) of the consolidated financial statements.

Profit for the year decreased by $5.7 million or 7.7 per cent from 2012 to $68.5 million, on average assets of $13.2 billion. Return on average assets increased from the prior year to 52 basis points and return on average equity decreased to 8.2 percent. Earnings per share were 23.3 cents compared to 26.5 cents in 2012 *(Chart 4, page 21)*.

Interest margin at $33.3 million was 16.5 per cent lower than the $39.9 million in 2012. As a percentage of average assets, Interest margin declined from 27.6 basis points in 2012 to 25.3 basis points. This reflects a risk reduction strategy implemented by Central 1 which resulted in yields on assets falling while the cost of funds did not decrease by a corresponding amount.

Gains on disposal of financial instruments combined with the increase in the fair value of financial instruments, resulted in a net gain of $55.4 million, compared to a net gain of $51.6 million in the previous year.

Other income increased by 8.4 per cent to $115.8 million from $106.9 million in 2012, reflecting higher levels of income across most business lines. Operating expenses increased by 10.2 per cent to $126.8 million, compared with $115.1 million a year earlier.

Chart 3 below provides a three-year comparison of Net financial income, Other income and Operating expense, all expressed as a percentage of total revenue.

Chart 3 - Major Components – Revenue & Expenses

(Millions of dollars — % of Net Financial and Other Income*)	2013			2012			2011		
Net Financial Income*	**$**	**88.7**	**43.4 %**	$	91.5	46.1 %	$	43.0	29.7 %
Other Income	**$**	**115.8**	**56.6 %**	$	106.9	53.9 %	$	101.9	70.3 %
Net Financial and Other Income*	**$**	**204.5**	**100.0 %**	$	198.4	100.0 %	$	144.9	100.0 %
Operating Expenses	**$**	**126.8**		$	115.1		$	120.3	
Productivity Ratio %		**62.0 %**			58.0 %			83.0 %	
Productivity Ratio % - Non-Financial		**109.4 %**			107.7 %			118.0 %	

**Excluding loss provisions*

Central 1's productivity ratio (defined as the ratio of Operating expense to the sum of Net financial income and Other income) showed a slight deterioration from 58.0 per cent in 2012 to 62.0 per cent in 2013.

The productivity ratio, in Central 1's case, must be viewed in proper context. Net Financial income includes changes in fair value of financial instruments and gains on disposal of financial instruments which are subject to market volatility and can fluctuate significantly from period to period.

Additionally, being a wholesale provider of services to its credit union shareholders, Central 1 prices many of its services on a cost-recovery basis, rather than at levels that would enhance Net income and improve returns on equity or assets. Under normal circumstances, this would keep Central 1's productivity ratio higher than would be the case if profit margins were built into product prices.

Central 1's non-financial productivity ratio (defined as the ratio of Operating expenses to Other income) showed a slight deterioration from 107.7 per cent in 2012 to 109.4 per cent in 2013.

Long-term financial liabilities of $4.8 billion decreased from $5.0 billion at year-end 2012, as obligations under the CMB program approach maturity; these were partially offset by increases in long-term deposits by credit unions, which increased from $3.9 billion to $4.1 billion.

.

Chart 4 below sets out selected financial information for 2013 together with comparable information for 2012 and 2011.

Chart 4 - Selected Financial Information

As at December 31		2013		2012		2011
Earnings (Millions of dollars)						
Net Financial & Other Income – after provisions	**$**	**205.8**	$	200.7	$	139.7
Profit for the year	**$**	**68.5**	$	74.1	$	16.7
Earnings Per Share (cents)						
Basic		**23.3**		26.5		9.0
Diluted		**23.3**		26.5		9.0
Return On						
Average Assets		**0.52 %**		0.51 %		0.12 %
Average Equity		**8.19 %**		9.58 %		2.66 %
Statement of Financial Position Data (Millions of dollars)						
Total Assets	**$**	**12,194**	$	14,149	$	14,585
Average Assets	**$**	**13,178**	$	14,443	$	14,456
Long-Term Liabilities	**$**	**4,748**	$	4,978	$	5,741
Weighted Average Shares Outstanding	**$**	**294**	$	280	$	186
Share Information						
Outstanding $1 par value Shares (Thousands of dollars)						
Class A – Credit Unions	**$**	**307,141**	$	290,255	$	272,018
Class B – Cooperatives	**$**	**5**	$	5	$	5
Class C – Others	**$**	**7**	$	7	$	7
Outstanding $0.01 par value Shares with redemption value of $100 (Thousands of dollars)						
Class E – Credit Unions	**$**	**32**	$	32	$	32
Dividends per share (Cents)						
Class A		**4.75**		2.00		2.00
Classes B and C		**1.38**		2.00		2.00
Class E		**–**		200.00		200.00

Jump to table of contents

Financial Objectives

Central 1 exceeded all of its four financial objectives for 2013 *(Chart 5, below).* Central 1's first objective is to earn a return, before taxes, on average equity equal to or greater than the budgeted return. The next two financial objectives relate to exceeding capital ratios prescribed by provincial and federal regulations. The fourth objective is to maintain liquid assets equal to at least 6.0 per cent of system assets, a requirement under the ICLA. As the system's liquidity manager, Central 1 will voluntarily adopt OSFI's Liquidity Coverage Ratio and Net Cumulative Cash Flow metrics during 2014.

Chart 5 - Financial Objectives

Objective	2013	2012	2011	Regulatory Requirement
Exceed Return on Average Equity Target				
Actual Return	**8.19 %**	9.58 %	2.66 %	
Budgeted Return	**3.80 %**	4.48 %	4.72 %	
Maintain Regulatory Capital in Excess of 15% of Risk Weighted Assets at the Year-End	**47.48 %**	39.4 %	34.8 %	> 10 %
Maintain Borrowing Multiple at a Ratio of between 14:1 and 17:1	**12.5:1**	14.4:1	15.4:1	less than 20.0:1
Maintain 6% or greater of System Assets in Liquid Form	**11.1 %**	10.9 %	10.3 %	

Selected Annual Information and Results of Operations

This part of the report discusses Central 1's financial performance for the year ended December 31, 2013 in more detail, and compares 2013 results with those of the previous years. A multi-year summary of Central 1's operations is provided at the end of the discussion *(page 47)*.

Statement of Profit or Loss

Financial Income

Central 1's Net financial income in 2013, after provision for credit losses, was $89.9 million compared to $93.9 million in 2012, a decrease of $4.0 million.

Central 1's Interest margin was $33.3 million, 16.5 per cent lower than the previous year's $39.9 million. Expressed as a percentage of average assets, Central 1's Interest margin fell to 25.3 basis points compared to 27.6 basis points earned the previous year. As a result of a risk reduction strategy, yields on assets fell during the year, while the cost of funds did not decrease by the same magnitude relative to yields on assets.

Government of Canada yields ended the year higher as the yield curve steepened, with longer-term bond yields rising more than shorter maturities. Credit spreads narrowed while interest rate swap spreads widened significantly.

In 2013, Central 1 recorded a net increase in the fair value of financial instruments (*Note 31* to the consolidated financial statements) of $29.3 million, together with gains on disposal of financial instruments (*Note 30 to* the consolidated financial statements) of $26.1 million. Total net gains on financial instruments amounted to $55.4 million compared to a net gain of $51.6 million in 2012.

Central 1's investment portfolios benefitted from narrowing credit spreads on Provincial, Canada Mortgage and high-grade corporate bonds. The portfolios' increased allocation to NHA Mortgage Backed Securities (MBS) also accounted for a considerable amount of the portfolios' strong performance over the year as credit spreads narrowed more than other government credits. Swap spreads widened to their highest levels in over five years during the second and third quarter, this provided an optimal time to unwind swapped asset positions and recognize gains while reducing risk.

The overall liquidity of the portfolios improved as Central 1 transitions its portfolio in anticipation of the implementation of OSFI's draft Liquidity Adequacy Requirement Guideline.

The chart of Comparative Interest Income & Expense *(Chart 6, page 24)* shows the yearly average balances of Central 1's earning assets and liabilities, their relative contribution or charge to Net financial income and their yields and costs.

In keeping with Central 1's mandate as liquidity manager for its member credit unions, short-term securities typically represent a great majority of its earning assets, with loans to member credit unions and securitization related balances accounting for most of the remainder.

During 2013, Central 1's balance sheet contracted primarily due to the repayment of obligations under the CMB program. Credit union mandatory deposits represent about 47.2 per cent of Central 1's liabilities; non-mandatory deposits from member credit unions account for 18.6 per cent; obligations related to the CMB Program account for a further 13.8 per cent and external deposits, borrowings and other liabilities make up the remainder.

Chart 6 - Comparative Interest Income & Expense

December 31 (Millions of dollars)	2013 Average Balance	2013 Interest	2013 Average Rate	2012 Average Balance	2012 Interest	2012 Average Rate	2011 Average Balance	2011 Interest	2011 Average Rate
Assets									
Cash & Securities	$ 9,893	$ 159.43	1.61 %	$ 8,833	$ 151.29	1.71 %	$ 8,874	$ 184.30	2.08 %
Deposits with Regulated Financial Institutions	14	0.29	2.07 %	49	0.30	0.61 %	61	1.03	1.69 %
Reinvestment Assets under CMB and IMPP programs	1,116	34.75	3.11 %	2,311	90.08	3.90 %	1,917	75.95	3.96 %
Loans	1,311	29.92	2.28 %	1,936	42.58	2.20 %	1,642	34.51	2.10 %
Secured Loans to Members	398	9.07	2.28 %	864	19.93	2.31 %	1,569	41.04	2.62 %
Total Interest Earning Assets	12,732	233.46	1.83 %	13,993	304.18	2.17 %	14,063	336.83	2.40 %
Other Assets	446			450			393		
Total Assets	$ 13,178	$ 233.46	1.77 %	$ 14,443	$ 304.18	2.11 %	$ 14,456	$ 336.83	2.33 %
Liabilities and Equity									
Debt Securities Issued	$ 1,021	$ 16.11	1.58 %	$ 706	$ 14.01	1.98 %	$ 550	$ 11.89	2.16 %
Deposits									
Credit Union Mandatory Deposits	5,824	83.12	1.43 %	5,395	82.06	1.52 %	5,082	85.89	1.69 %
Credit Union Current Accounts	789	7.71	0.98 %	766	7.99	1.04 %	859	9.43	1.10 %
Credit Union Other	1,512	22.65	1.50 %	2,048	31.90	1.56 %	2,577	38.63	1.50 %
Non Credit Union	557	9.25	1.66 %	550	7.69	1.40 %	678	8.85	1.31 %
Obligations under the CMB and IMPP programs	1,706	52.73	3.09 %	3,134	111.61	3.56 %	3,278	117.50	3.58 %
Securities under Repurchase Agreements	144	2.05	1.42 %	180	2.49	1.38 %	138	1.89	1.37 %
Subordinated Liabilities	169	6.54	3.87 %	169	6.55	3.88 %	208	8.38	4.03 %
Total	11,722	200.16	1.71 %	12,948	264.30	2.04 %	13,370	282.46	2.11 %
Other Liabilities	620			721			457		
Equity	836			774			629		
Total Liabilities and Equity	$ 13,178	$ 200.16	1.52 %	$ 14,443	$ 264.30	1.83 %	$ 14,456	$ 282.46	1.95 %
Interest Margin		33.30	0.25 %		39.88	0.28 %		54.37	0.38 %
Realized and Unrealized Gains (Losses) on Financial Instruments		55.44	0.42 %		51.58	0.36 %		(11.33)	(0.08) %
Net Financial Income		$ 88.74	0.67 %		$ 91.46	0.64 %		$ 43.04	0.30 %

Jump to table of contents

Other Income and Operating Expense

Central 1 provides an extensive range of financial and trade association services to its member credit unions, the majority of which offered on a fee-for-service basis. In addition, a number of key services of general benefit to Central 1's overall credit union members are funded by dues assessments, while other activities are supported in whole or part by fees.

Income generated by Central 1's non-interest sources in 2013 was significant and, in gross terms, exceeded that derived from financial margin. However, many non-financial products offered by Central 1 to its member credit unions are priced at a level to cover the associated operating expenses, with low profit margins. When combined with the administrative costs associated with offering Central 1's suite of financial products and services, compliance, and other corporate expenses, Operating Expenses have historically exceeded Other Income.

Other income of $115.8 million for the twelve months ended December 31, 2013 was higher than $106.9 million for the same period in 2012, while operating expenses were $126.8 million compared to $115.1 million for the same period in 2012.

The principal operations contributing to non-interest income are related to Technology and Payment Services, which typically produce approximately 60 per cent of the annual total *(Chart 7, page 26).*

Chart 7 - Other Income & Operating Expense

Year ended December 31 (Millions of dollars)	2013 Amount	2013 % of Income	2012 Amount	2012 % of Income	2011 Amount	2011 % of Income
Other Income						
Membership dues	$ 8.73	7.5 %	$ 8.40	7.9 %	$ 7.61	7.5 %
Provincial advertising assessment	2.52	2.2 %	1.24	1.2 %	2.26	2.2 %
Equity interest in affiliates	6.76	5.8 %	3.85	3.6 %	0.51	0.5 %
Insurance premiums and assessments	5.10	4.4 %	6.91	6.5 %	10.22	10.0 %
Technology & Payment Services						
Processing fees	43.76	37.8 %	40.98	38.2 %	42.68	41.9 %
Direct banking fees	22.73	19.6 %	20.26	19.0 %	18.20	17.9 %
Total Technology and Payment Services	66.49	57.4 %	61.24	57.2 %	60.88	59.8 %
Wholesale Financial Services						
Treasury services	0.27	0.2 %	0.38	0.4 %	0.40	0.4 %
Foreign exchange income	3.43	3.0 %	4.81	4.5 %	2.46	2.4 %
Lending fees	5.26	4.5 %	5.10	4.8 %	4.44	4.4 %
Employee benefits & retirement services	1.21	1.0 %	1.19	1.1 %	1.06	1.0 %
Trust services	2.34	2.0 %	2.27	2.1 %	2.26	2.2 %
Other	2.03	1.8 %	0.71	0.6 %	–	0.0 %
Total Wholesale Financial Services	14.54	12.5 %	14.46	13.5 %	10.62	10.4 %
Trade and Other Services						
Product compliance & design	1.68	1.5 %	1.53	1.4 %	1.54	1.5 %
Property rents	0.70	0.6 %	1.08	1.0 %	1.06	1.0 %
Risk management	2.65	2.3 %	2.72	2.5 %	2.88	2.8 %
Marketing products and programs	4.37	3.8 %	2.20	2.1 %	1.47	1.4 %
Research	0.84	0.7 %	0.81	0.8 %	0.74	0.8 %
Other	1.45	1.3 %	2.42	2.3 %	2.14	2.1 %
Total Trade and Other Services	11.69	10.2 %	10.76	10.1 %	9.83	9.6 %
Total Other Income	115.83	100.0 %	106.86	100.0 %	101.93	100.0 %
Operating Expenses						
Salaries & employee benefits	64.73	55.9 %	62.02	58.0 %	59.28	58.2 %
Premises and equipment	9.50	8.2 %	10.35	9.7 %	10.36	10.2 %
Cost of sales and services	30.33	26.2 %	25.42	23.8 %	31.78	31.2 %
Other	22.22	19.2 %	17.28	16.2 %	18.86	18.5 %
Total Operating Expense	126.78	109.5 %	115.07	107.7 %	120.28	118.1 %
Net Operating Expense	$ (10.95)	(9.5) %	$ (8.21)	(7.7) %	$ (18.35)	(18.1) %

Jump to table of contents

Technology & Payments Services' income of $66.5 million increased by $5.3 million compared with $61.2 million in 2012. The increase is associated with increased volumes in electronic processing and direct banking service revenues. Marketing products and programs revenues increased by $2.2 million over the same period from specific marketing programs offered by Central 1 to its credit union members during the year and compared with the same period in 2012. A new agreement with a member credit union contributed $1.1 million to the increase in revenue for 2013.

Included in other income is Central 1's equity interest in affiliates, which increased by $2.9 million, from $3.9 million in 2012 to $6.8 million in 2013. The increase was mainly due to stronger financial performance by CUMIS over the same period in 2012. Offsetting these positive variances were declines in insurance premiums and assessment income, which was $1.8 million lower compared with the same period in 2012. The decrease reflects the reduction in the customer base of Stabilization Fund Corporation (Ontario) over the prior year. Wholesale Financial Services revenues were unchanged at $14.5 million from 2012.

Operating expenses were up $11.7 million compared with the same period in 2012. Salary and benefit expenses were higher by $2.7 million largely attributable to restructuring costs of $4.9 million incurred in the first quarter of 2013 reflecting both a restructuring of Central 1's Payment Processing operations and the accrual of amounts payable pursuant to contractual agreements with two members of Central 1's EMT who announced they were leaving the organization during the first quarter.

Savings due to restructuring within Payments Processing operations resulted in lower salaries and employee benefits of $0.6 million over the prior year.

Cost of sales and services were $4.9 million higher compared to the same period in 2012. Cost associated with processing services within Technology & Payments Services were higher by $3.1 million compared with 2012. The increase can be attributed to higher volumes in processing and direct banking service costs. Additionally, cost of services for Marketing products and programs were up $1.9 million compared with 2012, which can be attributed to the increase in marketing programs to Central 1's credit union members.

Other expenses in 2013 were higher by $4.9 million compared to the prior year. Included in other expenses were professional fees that were $4.6 million higher compared to the same period in 2012. The increase in professional fees reflects the costs of implementing recommendations resulting from the review of Central 1's capital management, and liquidity and funding risk management processes undertaken in 2012.

Profit for the year

Central 1 posted Profit for the year of $68.5 million in 2013 *(Chart 8, below)*, an increase of $5.7 million from 2012. Central 1 posted a net mark-to-market gain on financial instruments of $29.3 million in the year, in addition to a gain of $26.1 million through the sales of financial instruments. As a result, Net financial and other income increased by $5.0 million to $205.8 million.

Operating expenses increased $11.7 million, bringing the year's Operating expenses to $126.8 million. As a result, Profit before income taxes was $79.0 million, compared to $85.7 million in 2012.

Chart 8 - Profit For The Year

Year ended December 31 (Millions of dollars - %)	2013	2012	2011
Profit before Income Taxes	**$ 79.0**	$ 85.7	$ 19.4
Return on Average Assets	**0.60 %**	0.59 %	0.13 %
Return on Average Share Capital	**26.86 %**	30.56 %	10.40 %
Return on Average Equity	**9.45 %**	11.07 %	3.08 %
Profit for the year	**$ 68.5**	$ 74.1	$ 16.7
Return on Average Assets	**0.52 %**	0.51 %	0.12 %
Return on Average Share Capital	**23.27 %**	26.45 %	8.96 %
Return on Average Equity	**8.19 %**	9.58 %	2.66 %

Other Comprehensive Income

Central 1 recorded other comprehensive loss of $4.4 million during 2013, compared to $3.5 million income in 2012. Other comprehensive income reflects changes in the fair value of financial assets classified as available-for-sale, with realized gains and losses on available-for-sale assets being reclassified from other comprehensive income to profit or loss. It also reflects actuarial gains or losses on employee benefit plans.

Net mark-to-market losses on available-for-sale securities in 2013 reflect higher interest rates as well as the recycling of unrealized gains from other comprehensive income into profit or loss, while the 2012 results primarily reflect the increase in fair value of Central 1's bond portfolio owing to tightening of credit spreads.

As most of Central 1's financial liabilities are measured at amortized cost and the majority of its financial assets are measured at fair value, there is an accounting mismatch in comprehensive income. *Note 40* to the consolidated financial statements provides a summary of the differences between the fair value of Central 1's net assets and their carrying value. On a net basis, the fair value of these financial instruments increased by $9.4 million during 2013 from a net loss of $38.2 million as at December 31, 2012, compared to a net loss of $28.8 million as at December 31, 2013.

Statement of Financial Position

Cash and Liquid Securities

Central 1's cash and securities were $10.3 billion at December 31, 2013. Of this amount, $0.3 billion comprises reinvestment assets which are designated to offset obligations under the CMB program. The balance of $10.0 billion, summarized by type in the accompanying chart *(Chart 9)* comprises the MRP and ELP and represents 85.5 per cent of Central 1's total assets excluding CMB program assets, compared to $9.3 billion and 77.5 per cent a year ago.

Investment activity in the MRP and ELP, as well as Central 1's overall portfolio, continued to be conservative in 2013 with investments made primarily in government debt (federal and provincial) and senior bank debt. As at December 31, 2013, Central 1 had no holdings of European sovereign debt.

As a percentage of system assets, Central 1's liquidity reserves, when measured by year-end balances, remained well in excess of the targeted level of 6.0 per cent of system assets.

Chart 9 - Cash and Liquid Securities

December 31 (Millions of dollars - % of total)	2013 MRP	2013 Excess	2013 Total	2013 %	2012	2012 %	2011	2011 %
Government & Guarantees	$ 4,718.1	$ 864.5	$ 5,582.6	56.0 %	$ 4,159.6	45.0 %	$ 3,404.8	42.6 %
Cash	–	74.2	74.2	0.8 %	90.2	0.9 %	100.8	1.2 %
	4,718.1	938.7	5,656.8	56.8 %	4,249.8	45.8 %	3,505.6	43.8 %
Corporate & Financial Institutions AA or Greater*	1,713.9	2,385.3	4,099.2	41.1 %	4,764.3	51.5 %	4,365.6	54.6 %
Other	12.7	194.3	207.0	2.1 %	235.8	2.6 %	129.6	1.6 %
Total	$ 6,444.7	$ 3,518.3	$ 9,963.0	100.0 %	$ 9,249.9	100.0 %	$ 8,000.8	100.0 %
% of Central 1 Year-End Assets (excluding CMB program assets)			85.5 %		77.5 %		71.4 %	
% of System Year-End Assets			10.8		10.5 %		9.9 %	

** The credit ratings represent investment grade ratings provided by DBRS*

Jump to table of contents

Loans

Central 1's provides clearing lines of credit and short and mid-term loans to its member credit unions. All lending activities are closely integrated and coordinated with Central 1's liquidity management role. Clearing credit line facilities, available in two currencies, are used to cover daily swings arising from the settlement of transactions. Short and mid-term loans are used for cash management purposes, for balance sheet funding or for asset acquisitions. Additionally, capital market facilities are available for derivative transactions or for hedging purposes and letter of credit facilities are available for domestic and international transactions.

Central 1 has a commercial lending group which participates in loan syndications with member credit unions. Central 1 also periodically acquires packages of mortgage loans from member credit unions to provide them with liquidity, for resale to other credit unions or for securitization. Most packages acquired by Central 1 are held for short periods, pending their resale to other credit unions or pending their securitization as described on page 32.

Chart 10 below provides a breakdown of the different categories of loan balances on Central 1's Consolidated Statement of Financial Position.

Chart 10 - Loans

December 31 (Millions of dollars - % of total)	2013			2012			2011		
Loans to Credit Unions	**$**	**879.8**	**76.0 %**	$	1,834.3	88.8 %	$	2,174.4	85.7 %
Syndicated commercial loans		**168.2**	**14.6 %**		167.8	8.1 %		160.3	6.3 %
Non syndicated commercial loans		**16.4**	**1.4 %**		21.4	1.0 %		31.9	1.3 %
Other loans		**25.8**	**2.2 %**		31.0	1.5 %		66.4	2.6 %
Securities acquired under reverse repurchase agreements		**66.9**	**5.8 %**		11.5	0.6 %		105.3	4.1 %
	$	**1,157.1**	**100.0 %**	$	2,066.0	100.0 %	$	2,538.3	100.0 %

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

In addition to the $1,571.1 million in loans outstanding as at December 31, 2013, Central 1 had issued standby letters of credit of $184.7 million on behalf of its members. By comparison, at year-end 2012, Central 1 had $2,066.0 million in loans outstanding and had issued $216.4 million in standby letters of credit.

Details of changes in Central 1's provision for credit losses against its lending portfolio are contained in *Note 12* to the consolidated financial statements. During the year, specific provisions decreased by approximately $0.8 million while the collective provision decreased by $0.2 million. Write-offs of loans previously fully provided for, accounted for $0.2 million of the decrease in specific provisions. Total provisions at the end of 2013 were significantly lower at about 0.3 per cent of total commercial loans outstanding, compared to 0.8 per cent in 2012.

Borrowings

Central 1's total borrowings as at December 31, 2013 are summarized in *Chart 11 (below)* together with comparative numbers for 2012 and 2011. Total Debt securities issued as at December 31, 2013 were $1.1 billion compared to $1.2 billion a year earlier. Of the total amount outstanding as at December 31, 2013, $0.6 billion was borrowed under Central 1's medium-term note facility and the remainder was borrowed through Central 1's short-term commercial paper facility.

Deposits from Central 1's member credit unions stood at $7.9 billion as at December 31, 2013, a decrease from $8.4 billion a year earlier. Credit union mandatory deposits grew by $0.3 billion over the year, to reach $6.0 billion at December 31, 2013, reflecting the growth in assets of both the B.C. and the Ontario credit union systems during the same period.

Non-mandatory deposits from Class A member credit unions decreased by $0.8 billion during the past year, due in part to lower levels of liquidity in the B.C. and Ontario systems. Some of Central 1's Class A Members have sought to diversify their deposit strategies, which also contributed to the decline year-over-year.

Obligations related to securities sold under repurchase agreements decreased by $94.7 million from a year earlier to $106.7 million, compared to $201.4 million at December 31, 2012.

Chart 11 - Borrowings

December 31 (Millions of dollars)	2013	2012	2011
Debt securities issued			
Commercial Paper issued	**$ 527.2**	$ 586.9	$ 150.0
Medium-term notes issued	**570.3**	583.9	226.1
	1,097.5	1,170.8	376.1
Deposits and Trading Liabilities by type			
Mandatory Deposits	**5,971.2**	5,719.6	5,340.4
Non-mandatory Deposits	**1,879.2**	2,663.3	3,368.0
Deposits from member credit unions	**7,850.4**	8,382.9	8,708.4
Others	**716.1**	467.5	480.6
	8,566.5	8,850.4	9,189.0
Securities under repurchase agreements	**106.7**	201.4	57.0
Total Borrowings	**$ 9,770.7**	$ 10,222.6	$ 9,622.1

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 securitize these loans either indirectly through Central 1 via asset-backed commercial paper conduits (ABCP Conduits) sponsored by major Canadian bank-owned dealers or directly through Central 1 by creating Government of Canada National Housing Act (NHA) Mortgage-Backed Securities (MBS).

For indirect securitizations, Central 1 provides guarantees or acts as a swap counterparty to member credit unions but does not acquire legal title to the underlying mortgage assets. For direct securitizations, Central 1 purchases the underlying mortgages from member credit unions. Central 1 may retain the NHA MBS created in direct securitization transactions or sell them to Canada Housing Trust (CHT) under the Canada Mortgage Bond (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 year-end can be found in *Notes 10* and *14* of the consolidated financial statements.

Statement of Changes in Equity

The Statement of Changes in Equity summarizes the changes in the Equity for the period ending December 31, 2013. Central 1's equity increased by $69.2 million during 2013 to $876.3 million, compared to an increase in equity of $86.1 million during the same period in 2012.

The increases in equity for both 2013 and 2012 was primarily due to increases in retained earnings, while the increase in 2011 over 2010 is primarily attributable to an increased subscription for Class "A" Shares held by Central 1's member credit unions.

Statement of Cash Flows

Central 1 had a net cash outflow from operating activities of $1.1 billion in 2013 compared to an inflow of $1.4 billion in 2012 with most of the decrease attributable to the changes in deposits and trading assets. Cash flows from investing activities increased by $2.6 billion in 2013 compared to an outflow of $1.4 billion in the previous year. The change was mostly due to the inflow resulting from the decrease in reinvestment assets under the CMB programs. Cash outflows from financing activities totaled $1.5 billion due to the repayment of obligations under the CMB program.

Overall cash at the end of the year had decreased by $16.1 million; however, this should be taken in the context of Central 1's role as a liquidity provider whose assets are primarily cash or readily marketable securities.

Income Taxes

Central 1's combined federal and provincial statutory rate is 30.5 per cent. Central 1's effective tax rate for the year was 13.3 per cent, essentially unchanged from 13.5 per cent in 2012. *Note 35* of the consolidated financial statements contains additional details about Central 1's tax rate.

The 2013 federal budget announced on March 21, 2013 proposed to phase out the deduction available to credit unions over a five year period. The revised federal legislation reflecting the budget intention was enacted during the fourth quarter of 2013.

The impact of the phasing out of the deduction in future periods 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.

Subsequent to year-end, the Government of British Columbia announced that it will phase out the preferential tax treatment for B.C. credit unions beginning in 2016.

Liquidity Management

Central 1 is the prescribed liquidity manager for British Columbia's credit unions and the liquidity manager by contract for member credit unions in Ontario. Provincial regulations require that British Columbia credit unions maintain 8.0 per cent (less up to 1.0 per cent for cash balances) of their aggregate debt and other liabilities as deposits with Central 1. Excepted are credit unions for which 8.0 per cent of aggregate deposits and other debt liabilities exceeds 1.5 per cent of B.C. system assets; these credit unions are required to maintain deposits with Central 1 equal to 1.5 per cent of B.C. system assets. There are currently two such credit unions, which together account for approximately 50 per cent of total B.C. system assets. Notwithstanding regulatory requirements, these credit unions have agreed to maintain deposits with Central 1 equal to at least 6 per cent of their aggregate deposits and other debt liabilities.

Ontario class 2 credit unions, which represent nearly 98 per cent of the Ontario system by assets, are required to adhere to a "prudent person" approach to maintaining adequate liquidity. However, as a condition of membership with Central 1, Ontario credit unions are required to enter into a Liquidity Agreement with Central 1. Under the terms of the agreement, member credit unions must maintain deposits with Central 1 of at least 6 per cent of assets.

Central 1's liquidity management framework is designed to ensure that reliable and cost-effective sources are available to satisfy current and prospective commitments of Central 1's member credit unions, as well as Central 1's obligations under the ICLA. The primary components of this framework are the maintenance of a large dedicated pool of marketable securities that can readily be converted to cash, ongoing access to diversified sources of wholesale funding and participation in the ICLA. Central 1 has also adopted many of the relevant aspects of the federal liquidity principles guideline B-6 issued by OSFI in February 2012. These principles focus on developing liquidity risk tolerance, scenario stress testing, cash flow forecasting, wholesale funding diversification and contingency planning.

Average Borrowings

During the year, Central 1's total average borrowings increased by $407.4 million *(Chart 12, page 34)*. This was primarily the result of an increase of secured notes and obligations under the post 2009 CMB program, partially offset by decreased member deposit balances.

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 including Central 1's medium-term note facility. At December 31, 2013, $528.0 million was borrowed under the short-term commercial paper facility (2012 - $588.0 million) and $570.0 million was borrowed under the medium-term note facility (2012 - $582.9 million).

Note 24 to Central 1's consolidated financial statements provides details of subordinated liabilities issued by Central 1. As at December 31, 2013, Central 1 had $168.0 million of subordinated debt outstanding (2012 - $168.0 million).

Central 1's regulatory borrowing multiple averaged 13.1:1 in 2013, compared to 14.4:1 in 2012 and 16.5:1 in 2011. Through a combination of positive earnings and lower borrowings, Central 1 managed to lower its borrowing multiple compared to the previous year. Central 1's target is to maintain a borrowing multiple between 14.0:1 to 17.0:1, which represents a balance between maintenance of a prudent capital reserve and the efficient use of capital.

CHART 12 - Average Borrowings for Regulatory Purposes

December 31 (Millions of dollars)	2013		2012		2011	
Short-term Unsecured Notes	$ 592.5	5.9 %	$ 398.5	4.1 %	$ 324.3	3.3 %
Mid-term Unsecured Notes	428.8	4.2 %	307.0	3.2 %	226.1	2.3 %
Non Credit Union Deposits	584.1	5.8 %	549.7	5.7 %	678.4	6.9 %
Credit Union Deposits	8,125.5	80.4 %	8,209.5	84.5 %	8,517.9	86.2 %
Obligations under the CMB & IMPP programs	232.1	2.3 %	54.6	0.6 %	–	0.0 %
Securities under repurchase agreements	143.9	1.4 %	180.2	1.9 %	138.0	1.3 %
Total Average Borrowings	$ 10,106.9	100.0 %	$ 9,699.5	100.0 %	$ 9,884.7	100.0 %
Average borrowing multiple	13.1		14.4		16.5	
System Amounts						
Average Credit Union Deposits as:						
% of Average System Liquid Assets	75.9 %		77.1 %		79.3 %	
% of Average System Total Assets	9.0 %		9.7 %		11.0 %	

The accompanying charts below show the average balances of Central 1 and the two provincial credit union systems, individually and combined, for the past two years *(Chart 13(a)* and *(b)*).

Chart 13 (a) - Central 1 Credit Union – Average Balances

December 31 (Millions of dollars - % Avg Assets)	2013		2012		2011	
Central 1 Credit Union						
Cash & Liquid Assets	**$ 9,893**	**75.1 %**	$ 8,833	61.2 %	$ 8,874	61.4 %
Deposits with regulated financial institutions	**$ 14**	**0.1 %**	$ 49	0.3 %	$ 61	0.4 %
Loans	**$ 1,311**	**9.9 %**	$ 1,936	13.4 %	$ 1,642	11.4 %
Debt securities issued	**$ 1,021**	**7.7 %**	$ 706	4.9 %	$ 550	3.8 %
Deposits	**$ 8,682**	**65.9 %**	$ 8,759	60.6 %	$ 9,196	63.6 %
Members' Equity	**$ 836**	**6.3 %**	$ 774	5.4 %	$ 629	4.4 %
Average Total Assets	**$ 13,178**		$ 14,443		$ 14,456	

Chart 13 (b) - Provincial Credit Union Systems – Average Balances (Unaudited)

December 31 (Millions of dollars - % Avg Assets)	2013		2012		2011	
B.C. Credit Union System						
Cash & Liquid Assets	**$ 7,034**	**12.1 %**	$ 7,081	12.8 %	$ 7,384	14.2 %
Other Assets	**$ 1,020**	**1.8 %**	$ 999	1.8 %	$ 1,043	2.0 %
Loans	**$ 49,763**	**85.8 %**	$ 47,092	85.1 %	$ 43,629	83.8 %
Borrowings	**$ 2,447**	**4.2 %**	$ 2,925	5.3 %	$ 2,416	4.6 %
Deposits	**$ 51,007**	**87.9 %**	$ 48,150	87.0 %	$ 45,604	87.6 %
Members' Equity	**$ 3,647**	**6.3 %**	$ 3,407	6.2 %	$ 3,176	6.1 %
Average Total Assets	**$ 58,013**		$ 55,364		$ 52,056	

December 31 (Millions of dollars - % Avg Assets)	2013		2012		2011	
Ontario Credit Union System						
Cash & Liquid Assets	**$ 3,676**	**11.5 %**	$ 3,572	12.1 %	$ 3,357	13.1 %
Other Assets	**$ 587**	**1.8 %**	$ 545	1.8 %	$ 491	1.9 %
Loans	**$ 27,173**	**84.7 %**	$ 24,655	83.8 %	$ 21,275	82.8 %
Borrowings	**$ 2,062**	**6.4 %**	$ 1,704	5.8 %	$ 919	3.6 %
Deposits	**$ 27,386**	**85.3 %**	$ 25,270	85.8 %	$ 22,575	87.9 %
Members' Equity	**$ 2,187**	**6.8 %**	$ 2,031	6.9 %	$ 1,790	7.0 %
Average Total Assets[1]	**$ 32,097**		$ 29,438		$ 25,689	

December 31 (Millions of dollars - % Avg Assets)	2013		2012		2011	
B.C. and Ontario Credit Union System Combined						
Cash & Liquid Assets	**$ 10,710**	**11.9 %**	$ 10,652	12.6 %	$ 10,741	13.8 %
Other Assets	**$ 1,607**	**1.8 %**	$ 1,544	1.8 %	$ 1,535	2.0 %
Loans	**$ 76,936**	**85.4 %**	$ 71,747	84.6 %	$ 64,904	83.5 %
Borrowings	**$ 4,509**	**5.0 %**	$ 4,629	5.5 %	$ 3,335	4.3 %
Deposits	**$ 78,393**	**87.0 %**	$ 73,421	86.6 %	$ 68,179	87.7 %
Members' Equity	**$ 5,834**	**6.5 %**	$ 5,438	6.4 %	$ 4,967	6.4 %
Average Total Assets	**$ 90,110**		$ 84,802		$ 77,745	

[1]2012 Average Total Assets include DUCA Financial Service Credit Union Ltd. & St Stanislaus-St Casimir's Polish Parishes Credit Union Ltd. which together contributed approximately $1.3 billion

Jump to table of contents

There is a strong relationship between the balance sheets of Central 1 and the B.C. and Ontario systems. Member deposits are the principal funding source for individual credit unions and as deposits grow, total assets increase. Since the minimum liquidity that must be maintained with Central 1 is a function of credit unions' assets (ON) or liabilities (BC), credit union mandatory deposits with Central 1 will also increase, thus increasing Central 1's asset base. When credit unions experience strong loan demand, credit union liquidity that is surplus to their loan demand will tend to decrease; this tends to decrease their non-mandatory deposits with Central 1 and may increase their demand for loans from Central 1.

Solid deposit growth continued to fuel growth of member credit union assets, which increased by 6.8 per cent system-wide to reach $78.4 billion at year-end 2013. However, Central 1's average assets were lower year-over-year at $13.2 billion, due to the maturity of approximately $1.4 billion of obligations under the CMB program. The assets were further reduced by a reduction of approximately $1.0 billion in loans to credit unions as well as a reduction in investment securities. (For more detailed commentary on the system's 2013 results, *see B.C. Credit Union System Performance and Ontario Credit Union System Performance, pages 16 & 17*).

Central 1's assets consist primarily of liquid securities and fully secured loans to credit unions. The proportions of these fluctuate with the levels of liquidity in the system and the demand for loans from Central 1 by its members.

Central 1's liabilities consist primarily of deposits from credit unions. Central 1 has a mandatory source of funding through the regulatory requirement that B.C. credit unions maintain liquidity deposits with Central 1 and through Liquidity Agreements with Ontario member credit unions.

Central 1 supplements mandatory deposits with deposits of excess liquidity from credit unions and deposits from organizations external to the system.

Funding Strategy and Sources

Diversification, which provides flexibility and minimizes concentration risk and, generally, lowers the cost of funds, is a crucial component of Central 1's overall liquidity management strategy. Central 1's primary funding source is deposits from credit unions, the majority of which are required by regulation in B.C. and under agreements in Ontario. Supplementary to this core deposit base are deposits from third parties as well as borrowings under Central 1's commercial paper and medium-term note programs and, to a lesser amount, lines of credit with other financial institutions.

The system uses asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes. As discussed earlier in the report, credit unions and Central 1, as approved National Housing Act Mortgage-Backed Security (NHA MBS) Issuers and Sellers to Canada Housing Trust (CHT), access programs sponsored by Canada Mortgage and Housing Corporation (CMHC). Central 1 acts as the approved swap counterparty to CHT, NHA MBS administrator and reinvestment agent on behalf of credit unions participating in the CMHC programs. In 2013, 7 credit unions in B.C. and 13 credit unions in Ontario, as well as Central 1, issued 101 NHA MBS pools representing over $1.2 billion in issuance.

During 2013, Central 1 consistently had outstanding between $500 million and $575 million in commercial paper at attractive spreads as compared to short term debt instruments offered by Canada's largest chartered banks, despite the significant difference in program size. In 2013, Central 1 issued a $300 million Floating Rate Note (FRN) maturing April 2015.

Central 1's ability to access unsecured funding from capital markets, and the cost of such funds, primarily depends on market liquidity, investor demand and Central 1's ongoing maintenance of acceptable credit ratings. Central 1's credit rating is largely determined by the quality of Central 1's and the system's assets and the strength of earnings.

As part of its commitment to actions that support the strength of its credit ratings, Central 1 measures and monitors both its own, and the system's, liquidity condition from structural, tactical and contingent viewpoints.

Structural Liquidity Risk Management

Each credit union is unique by virtue of its local ownership, its geographical market, and its operating philosophy. Consequently, the liquidity position of individual credit unions varies widely. Credit unions are distinct legal entities and are not permitted under provincial legislation to lend to one another. Hence, Central 1's lending and other funding programs, such as securitization, act as the mechanism by which liquidity is redeployed throughout the system.

Central 1 constantly monitors and assesses the liquidity requirements of the system in light of current and forecasted economic conditions. This allows Central 1 to identify potential liquidity imbalances and to take corrective action through its liquidity management framework.

Tactical Liquidity Risk Management

Tactical liquidity risk management addresses the normal day-to-day funding requirements of Central 1 and the system. Central 1 has imposed limits on projected net fund outflows for specified short-term periods and on the minimum degree of liquidity inherent in its pool of marketable securities.

Contingent Liquidity Risk Management

As part of its liquidity planning, Central 1 recognizes the need to plan for an event of general market disruption, adverse economic conditions or specific risks that could affect its ability to meet its commitments and to provide liquidity, in the form of loans, to its members. In such an event, all of Central 1's pool of marketable, unencumbered securities would be available for this purpose.

In addition, should Central 1's members experience a disruption to their normal business operations, Central 1 also has access to emergency loans through a legal arrangement with other provincial central credit unions under the ICLA. The ICLA provides Central 1 with direct access to emergency funds in the event of a liquidity disruption in its local market.

Central 1 has access to intra-day and short-term funding facilities from the Bank of Canada, by virtue of being a Group Clearer and an LVTS participant, as well as longer-term funding facilities that may be offered to all market participants at the discretion of the Bank.

Capital Management and Capital Resources

Central 1's strong capital base contributes to its safety, cultivates strong investor confidence, supports its high credit ratings and allows it to keep pace with system growth.

Effective January 1, 2013 Central 1 adopted a new Capital Policy. Under the terms of the Capital Policy Central 1's Class A Members are required to subscribe to additional Class A Shares on a semi-annual basis to ensure that Central 1 maintains a borrowing multiple operating target. Net earnings in the MRP are to be distributed to Central 1's Class A Members as dividends on their Class A Shares. Central 1's previous dividend policy was to pay an annual dividend of 2 per cent on all classes of shares.

Central 1's capital levels are regulated under federal guidelines issued by OSFI and provincial regulations administered by FICOM. Pursuant to federal regulations, Central 1 is required to maintain a borrowing multiple, its ratio of liabilities to regulatory capital, of no greater than 20:1.

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 per cent. Additionally, Central 1 must maintain a risk-weighted capital ratio of at least 10.0 per cent to enable member B.C. credit unions to risk-weight their deposits with Central 1 at zero per cent.

While federal regulations allow for a borrowing multiple of 20:1, Central 1 sought to operate at the lower end of its target range of 14:1 to 17:1 (previously 15:1 to 17:1) to ensure that it had the capacity to absorb sudden increases in system deposits, an increase in external borrowings to meet member demand for loans from Central 1, and market volatility. A two-year comparison of Central 1's capital adequacy, measured under both provincial and federal regulations, shows continued strong levels of capital and strong management performance in operating within regulated levels *(Chart 14 and Chart 15, pages 39 & 40)*.

Subsequent to year-end, FICOM confirmed requirements for Central 1 to maintain a federal borrowing multiple of no more than 16:1 for the MRP and no more than 14:1 for the ELP. As indicated below, Central 1 had sufficient regulatory capital as at December 31, 2013 to meet these new requirements.

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 has revised its operating capital targets. Beginning in 2014 Central 1’s operating capital target for the MRP will be 14.5:1 and its operating target for the ELP will be 12:1.

In January 2013, OSFI published the federal capital adequacy requirements that apply the Basel III regulations to banks and trust and loan companies in Canada. Currently, these requirements are not applicable to federally regulated cooperative credit associations (“centrals”) such as Central 1. However, OSFI has begun the process of determining the application of BASEL III to centrals. OSFI is cognizant that centrals have a different operating environment than that of the banks and is collecting information from central credit unions to determine what aspects of BASEL III may be appropriate. The Ministry of Finance of B.C. is also currently assessing how BASEL III might be applied to Central 1 and its member credit unions in B.C. Central 1 continues to monitor the potential impact of any revisions to the determination of capital adequacy on Central 1 and the credit union system.

Chart 14 - Risk Adjusted Assets

		2013		2012		2011	
December 31 (Millions of dollars)	**Risk Weight**	**Gross Assets**	**Risk Adjusted**	**Gross Assets**	**Risk Adjusted**	**Gross Assets**	**Risk Adjusted**
On Balance Sheet							
Cash	0-20 %	**$ 74.2**	**$ 13.9**	$ 90.2	$ 17.6	$ 100.8	$ 19.8
Securities	0-100 %	**10,496.1**	**1,081.5**	10,898.1	1,155.7	10,257.6	1,019.1
Deposits with Regulated FIs	20-100 %	**7.1**	**1.4**	106.3	21.2	5.4	1.1
Loans	20-100 %	**1,158.0**	**375.2**	2,613.5	557.2	3,649.8	636.9
Other	0-100 %	**458.5**	**95.6**	446.9	122.0	575.4	167.4
		12,193.9	**1,567.6**	14,155.0	1,873.7	14,589.0	1,844.3
Off-Balance Sheet							
Derivatives	0-100 %	**199.7**	**39.9**	206.2	41.2	299.4	59.9
Credit Commitments	0-50 %	**3,188.3**	**145.1**	3,200.5	–	3,185.4	–
Guarantees & Letters of Credit	10-50 %	**124.2**	**24.8**	193.8	19.3	184.5	36.9
		3,512.2	**209.8**	3,600.5	60.5	3,669.3	96.8
Total Risk-Weighted Assets		**$ 15,706.1**	**$ 1,777.4**	$ 17,755.5	$ 1,934.2	$ 18,258.3	$ 1,941.1

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

Central 1's rules permit it to unconditionally require its Class A members to increase their investment in its share capital. Class A share calls are now routinely scheduled each May and November to support mandatory deposits as at March 31 and September 30 respectively.

As of December 31, 2013, Central 1's Tier 1 capital was $823.7 million *(Chart 15, page 40)* and total capital before deductions was $996.3 million. In determining regulatory capital, adjustments are required to amounts reflected in Central 1's consolidated balance sheet. Deductions from capital are required for certain investments, including Central 1's substantial investment in affiliated cooperative organizations such as The CUMIS Group Limited.

Chart 15 - Summary of Regulatory Capital

December 31 (Millions of dollars)	2013	2012	2011
Share Capital	**$ 307.2**	$ 290.3	$ 272.1
Contributed Surplus	**87.9**	87.9	87.9
Retained Earnings	**433.2**	374.8	310.8
Less: Accum Net After Tax Gain in Investment Property	**(4.3)**	(4.5)	(4.7)
Tier 1 Capital	**824.0**	748.5	666.1
Subordinated Debt	**168.0**	168.0	168.0
Add: Accum Net After Tax Gain in Investment Property	**4.3**	4.5	4.7
Tier 2 Capital	**172.3**	172.5	172.7
Total Capital	**996.3**	921.0	838.8
Statutory Capital Deductions	**(152.4)**	(152.9)	(154.6)
Capital Base (Federal)	**$ 843.9**	$ 768.1	$ 684.2
Borrowing Multiple	**12.5:1**	14.4:1	15.3:1
Capital Base (Provincial)	**$ 838.3**	$ 752.4	$ 675.4
Provincial Risk Weighted Assets	**47.5 %**	39.4 %	34.8 %

As at December 31, 2013, Central 1's borrowing multiple for its MRP business line was 15.4:1 and its borrowing multiple for ELP business lines were 10.1:1.

At the end of 2013, Central 1's borrowing multiple of 12.5:1 (2012 – 14.4:1) was lower than the target operating range of 14:1 to 17:1. However, Central 1's borrowing multiple exceeded its operating target for the MRP business line as at year-end. The next scheduled share call for Central 1's Class A Members is in May, 2014 at which time it is anticipated that Class A Members will subscribe to sufficient additional Class A Shares to reduce the MRP business line borrowing multiple to Central 1's operating target.

Contractual Obligations

The chart below summarizes Central 1's contractual financial obligations for each of the next five years and thereafter *(Chart 16, below)*. Almost all of the obligations are incurred in Central 1's role as a liquidity manager and consist of member deposits or short- and long-term notes. Mandatory deposits are either required to be renewed with Central 1 by regulation or contract or are anticipated to be re-deposited with Central 1.

Chart 16 - Contractual Obligations

December 31, 2013 (Millions of dollars)	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years	Total
Mandatory Deposits	$ 2,159.1	$ 2,789.2	$ 1,022.9	$ –	$ 5,971.2
Non-mandatory deposits	2,238.1	197.4	159.9	–	2,595.4
Other debt outstanding	903.8	300.4	–	–	1,204.2
Operating leases	1.7	2.0	1.9	4.6	10.2
Finance Leases	0.5	0.4	–	–	0.9
Total	**$ 5,303.2**	**$ 3,289.4**	**$ 1,184.7**	**$ 4.6**	**$ 9,781.9**

Jump to table of contents

Off-Balance Sheet Arrangements

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

Derivative Financial Instruments

Derivatives are primarily used in the asset/liability management activities of Central 1. Central 1 also structures and sells a variety of derivative products to credit unions as tools in the management of their respective balance sheets. Central 1 also acts as an intermediary swap counterparty on behalf of its member credit unions.

Derivative contracts give rise to counterparty credit risk, which is managed within the context of Central 1's overall credit risk policies. Central 1 has Credit Support Agreements (CSA) in place with all of its significant non-credit union derivatives counterparties. Under a CSA, net credit positions are collateralized with government-guaranteed securities. Central 1's credit exposure to its credit union counterparties is secured by the general security arrangements it has in place with each credit union.

The credit exposure of derivative contracts as measured by risk-adjusted credit equivalents is presented in *Chart 14 (page 39)*. The fair value of derivative positions is presented in *Note 6* to the consolidated financial statements.

Guarantees

Central 1, as the primary rated entity within the system, issues guaranteed products to member credit unions or on behalf of their members to help them meet their financing needs. Significant types of such products are financial standby letters of credit, performance guarantees and certain liquidity facilities. In addition to guarantees, Central 1 makes commitments to its members to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, letters of credit and capital market facilities. *Chart 14 (page 39)*, provides a summary of Central 1's off-balance sheet commitments.

Transactions with Related Parties

There were no material transactions in 2013 with related parties, nor are there any contemplated at this time.

Summary of Quarterly Results and Fourth Quarter

Quarterly Results

Central 1's financial results for each of the eight most recently completed quarters are summarized in *Chart 17 (page 42)*.

Interest margin has shown a declining trend quarter over quarter since mid-2011. The fourth quarter of 2013 showed an increase in interest margin that was aided by non-recurring income on maturing CMB deals and associated derivatives. Events in financial markets have resulted in a sustained period of low interest rates, which has resulted in lower yields on both Central 1's interest earning assets and its interest bearing liabilities. Beginning in the second half of 2011 and continuing into 2012 and through 2013, Central 1 undertook to reduce the risk exposures in its investment portfolio; this has resulted in yields on assets declining more than yields on liabilities over the past couple of years.

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

Chart 17 - Central 1 Credit Union – Quarterly Earnings

December 31 (Thousands of dollars except as indicated)	Period Ended 31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13	Period Ended 31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12
Total Interest Income	$ 64,398	$ 62,001	$ 54,159	$ 52,898	$ 79,212	$ 77,146	$ 74,791	$ 73,033
Total Interest Expense	56,611	54,200	46,851	42,494	68,082	67,014	65,306	63,901
Interest Margin	7,787	7,801	7,308	10,404	11,130	10,132	9,485	9,132
Gains (Losses) on disposal of financial instruments	5,645	19,362	(4,554)	5,699	30,972	22,329	10,595	2,727
Changes in fair value of financial instruments	14,496	202	9,645	4,947	(1,986)	(27,108)	10,258	3,792
Recovery (provision) of credit losses	745	45	149	264	111	(553)	872	1,995
Other income	27,424	28,583	25,723	34,099	25,007	27,421	26,179	28,250
Operating expenses	(33,119)	(31,748)	(28,826)	(33,083)	(29,403)	(27,551)	(27,641)	(30,470)
Income taxes	(2,948)	(3,778)	(1,639)	(2,183)	(4,803)	(682)	(4,120)	(1,928)
Profit for the period	$ 20,030	$ 20,467	$ 7,806	$ 20,147	$ 31,028	$ 3,988	$ 25,628	$ 13,498
Shares (weighted average outsanding during the quarter)	291.4	293.3	293.5	298.4	274.2	278.3	281.2	287.6
Earnings per Share* (cents)	6.9	7.0	2.7	6.8	11.3	1.4	9.1	4.7
Earnings per Share fully diluted (cents)	6.9	7.0	2.7	6.8	11.3	1.4	9.1	4.7

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

Operating expenses in 2013 increased $11.7 million from $115.1 million in 2012 to $126.8 million in 2013. The increase in expenses is attributed to the restructuring costs of $4.9 million incurred in the first quarter of 2013 reflecting both a restructuring of Central 1's Payment Processing operations and amounts related to the departure of two members of Central 1's Executive Management Team. Certain initiatives were undertaken to improve the efficiency of Central 1's Payments Processing operations which resulted in lower salaries and employee benefits of $0.6 million in 2013 compared to 2012. Restructuring amounts were payable to members of Central 1's Executive Management Team pursuant to contractual agreements.

A portion of the increase in Operating expenses incurred during 2013 relates directly to the increase in Other income. The increase can be attributed to higher volumes in processing and direct banking service costs and increased Marketing products and programs to Central 1's credit union members. In addition, the increase in Operating expenses also includes an increase in costs incurred to support the implementation of recommendations resulting from the 2012 review of Central 1's capital management, and liquidity and funding risk management processes.

Jump to table of contents

Fourth Quarter 2013 compared to Fourth Quarter 2012

Central 1 realized gains on disposal of financial instruments of $5.7 million and recorded mark-to-market gains on financial instruments of $4.9 million during the quarter. Taken in aggregate, a net gain of $10.6 million was recorded during the quarter, compared to a gain of $6.5 million in the same period in 2012.

Trading deposits, the fair value of which is determined by reference to yields on government issued securities, increased in value during the period, resulting in a mark-to-market loss.

Central 1 reported other income of $34.1 million for the fourth quarter of 2013, which was higher than the $28.3 million recorded for the fourth quarter of 2012. Technology and Payments Services revenues increased by $3.1 million over the prior year fourth quarter as payments processing volumes increased, combined with project fees earned in the fourth quarter.

Marketing products and program service revenues were higher by $2.0 million compared to the fourth quarter of 2012 attributed to the increase in marketing programs to Central 1's credit union members. Included in other income is Central 1's equity interest in affiliates which increased by $1.5 million over the prior year fourth quarter. The increase was mainly due to stronger financial performance by CUMIS over the same period in 2012.

Operating expenses increased in the fourth quarter from $30.5 million in 2012 to $33.1 million in 2013. Salaries and benefit expenses decreased overall in the fourth quarter by $1.3 million. Savings from the payments operations restructuring in the first quarter of 2013 represents a reduction in salary and benefit expense compared to the prior year quarter. Additionally, vacancies in other operating units have created cost savings. Other categories of operating expenses increased by $3.9 million. The increase in operating expenses compared to the same period in the prior year stems from an increase in direct costs for processing and direct banking of $1.7 million and marketing products and programs of $0.6 million. Additionally, professional service fees were $1.1 million higher than the same period in the prior year, largely attributable to the costs of implementing the recommendations resulting from the 2012 review of Central 1's capital management, and liquidity and funding risk management processes.

Fourth Quarter 2013 compared to Third Quarter 2013

Central 1 realized gains on disposal of financial instruments of $5.7 million and recorded mark-to-market gains on financial instruments of $4.9 million during the quarter. Taken in aggregate, a net gain of $10.6 million was recorded, compared to a gain of $5.1 million in the third quarter in 2013.

Trading deposits, the fair value of which is determined by reference to yields on government issued securities, increased in value during the period, resulting in a mark-to-market loss.

Other income of $34.1 million during the fourth quarter of 2013 was up by $8.4 million compared to $25.7 million in the third quarter of 2013. Technology and Payments Services revenues increased by $3.0 million over the prior quarter, primarily due to the timing of revenue recognition for project fees. Trade and other services revenue increased by $2.2 million over the prior quarter is attributed to targeted marketing products and programs services. Additionally, Treasury services revenues increased from $2.0 million in the third quarter to $3.8 million in the fourth quarter, reflecting an increase in foreign exchange transaction activity. Included in other income is Central 1's equity interest in affiliates which increased by $1.4 million compared to the third quarter.

In aggregate, operating expenses were $33.1 million in the fourth quarter compared to $28.8 million in the third quarter. Salaries and benefit expenses decreased overall by $1.8 million, from $15.0 million in the third quarter to $13.2 million in the fourth quarter largely due to vacancies in personnel. Other categories of operating expenses increased in the fourth quarter by $6.1 million. The operating expenses at the end of the fourth quarter were $19.9 million compared to $13.8 million in the third quarter. The increase in operating expenses over the prior quarter can be attributed to an increase in direct costs for marketing products and programs and professional fees on corporate initiatives.

Accounting and Control Matters

Central 1's 2013 Annual Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as described in *Note 2* to those statements.

Critical Accounting Policies and Estimates

Central 1's accounting policies are described in *Note 3* to its 2013 annual consolidated financial statements. Certain of these policies, as well as estimates made by management in applying such policies, are considered critical because they require management to make subjective or complex judgments about matters that are inherently uncertain.

In preparing Central 1's 2013 annual consolidated financial statements, management is required to make estimates and judgments about the future based on information as of the date of the financial statements. Certain amounts recorded in the financial statements, including financial instruments measured at fair value, recoverability of loans, accounting for securitization transactions, income taxes, and post-employment benefits, require management to make subjective or complex judgments. *Note 5* to Central 1's 2013 annual consolidated financial statements provides additional details regarding estimates and judgments used by management in preparing Central 1's financial statements.

New accounting standards adopted

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

IAS 1 Amended prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IFRS 10 provides the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee. IFRS 11 provides a framework for entities to assess whether or not they participate in joint arrangement, joint venture or joint operations. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of risk associated with the entity's interest in other entities. IFRS 13 establishes a framework for measuring fair value and sets disclosure requirements for fair value measurements. IAS 19R provides a new approach to measuring actuarial gains and losses on employee benefit plans.

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

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

Note 4 of Central 1's annual consolidated financial statements provides additional information on the impact of adopting these new and amended accounting standards on Central 1's financial statements.

Future Changes in Accounting Policies

IFRS 9 – Financial Instruments

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 'Financial Instruments' ('IFRS 9 (2009)') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 ('IFRS 9 (2010)') relating to financial liabilities. In November 2013, the IASB amended IFRS 9 ('IFRS 9 (2013)') to introduce a new hedge accounting model. Together, these changes represent the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

The IASB has decided to remove the mandatory effective date of January 1, 2015 and decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2017. However, early adoption is allowed.

The main changes associated with the replacement of IAS 39 with IFRS 9 are summarized below.

All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist. Financial assets are to be measured at amortized cost if the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding and the entity demonstrates the intention of holding the financial assets for the collection of the contractual cash flows. With certain exceptions that are not anticipated to be significant to Central 1, all other financial assets are to be measured at fair value, with changes in fair value recognized in profit or loss.

An entity would be permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch.

It is expected that IFRS 9, when initially applied, will have a significant impact on Central 1's financial statements, since it will be required to be applied retrospectively. However, Central 1 is not able at this time to estimate reasonably the impact that IFRS 9 (2010) will have on the financial statements.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this 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 in providing reasonable assurance that information required to be disclosed in Central 1's 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 year ended December 31, 2013. 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.

Jump to table of contents

Central 1 Credit Union - Four Year Summary – IFRS Statement of Financial Position

December 31 (Millions of dollars unless otherwise indicated)	2013	2012	2011	2010
Assets				
Cash	$ **74.15**	$ 90.24	$ 100.80	$ 121.29
Deposits with regulated financial institutions	**7.13**	106.28	5.36	140.56
Pledged trading assets	**64.44**	135.57	51.65	160.75
Reinvestment assets under the CMB and IMPP Programs	**306.92**	1,652.24	2,205.74	1,643.99
Non-Pledged trading assets	**4,312.41**	2,678.96	3,998.71	4,253.13
Derivative assets	**29.38**	34.02	41.35	129.10
Loans	**1,157.97**	2,069.52	2,533.03	1,109.18
Investment securities	**5,553.36**	6,386.58	3,891.04	3,962.28
Secured loans to members	**229.62**	561.51	1,167.42	1,929.85
Current tax assets	**4.34**	–	–	3.18
Property and equipment	**16.11**	17.30	16.80	17.09
Intangible assets	**12.20**	6.41	2.57	4.11
Deferred tax assets	**6.37**	6.39	8.20	5.72
Investment in affiliates	**120.11**	110.17	108.83	128.22
Other	**299.93**	294.23	453.68	59.72
Total Assets	$ **12,194.44**	$ 14,149.42	$ 14,585.18	$ 13,668.17
Liabilities				
Deposits designated as trading	$ **3,398.89**	$ 2,286.08	$ 2,034.22	$ 2,072.59
Derivative liabilities	**150.64**	216.04	211.97	80.12
Debt securities issued	**1,097.51**	1,170.80	375.51	620.53
Deposits	**5,167.62**	6,564.33	7,154.65	6,535.91
Obligations under the CMB and IMPP Programs	**831.76**	2,259.99	3,246.23	3,280.11
Subordinated liabilities	**169.14**	168.86	168.57	200.58
Provisions	**3.99**	5.28	5.80	6.45
Securities under repurchase agreements	**106.71**	201.43	57.02	162.36
Current tax liabilities	**–**	2.58	4.28	–
Deferred tax liabilities	**4.70**	2.93	2.98	2.14
Other	**387.14**	464.00	602.92	114.85
	11,318.10	13,342.32	13,864.15	13,075.64
Equity				
Share capital	**307.19**	290.30	272.06	164.98
Contributed surplus	**87.90**	87.90	87.90	87.90
Retained earnings	**433.17**	374.84	310.78	302.92
Accumulated other comprehensive income	**35.08**	39.46	35.92	22.75
Reserves	**3.13**	4.99	5.28	5.60
Total equity attributable to members of Central 1	**866.47**	797.49	711.94	584.15
Non-controlling interest	**9.87**	9.61	9.09	8.38
	876.34	807.10	721.03	592.53
Total Liabilities and Equity	$ **12,194.44**	$ 14,149.42	$ 14,585.18	$ 13,668.17

IFRS Profit and Loss – For the Year Ended

December 31 (Millions of dollars unless otherwise indiciated)	2013	2012	2011	2010
Interest income				
Securities	$ **159.43**	$ 151.29	$ 184.30	$ 165.57
Deposits with regulated financial institutions	**0.29**	0.30	1.03	1.42
Loans	**29.92**	42.58	34.51	22.30
Secured loans and reinvestment assets	**43.82**	110.01	116.99	117.32
	233.46	304.18	336.83	306.61
Interest expense				
Debt securities issued	**18.16**	16.50	13.78	12.08
Deposits	**122.73**	129.64	142.80	116.49
Obligations under the CMB and IMPP Programs	**52.73**	111.61	117.50	117.55
Subordinated liabilities	**6.54**	6.55	8.38	8.27
	200.16	264.30	282.46	254.39
Interest margin	**33.30**	39.88	54.37	52.22
Gains on disposal of financial instruments	**26.15**	66.62	98.41	44.00
Change in fair value of financial instruments	**29.29**	(15.04)	(109.74)	(18.79)
Net financial income	**88.74**	91.46	43.04	77.43
(Recovery) provision for credit losses	**(1.20)**	(2.42)	5.31	4.41
	89.94	93.88	37.73	73.02
Other income	**115.83**	106.85	101.93	99.63
Net financial and other Income	**205.77**	200.73	139.66	172.65
Operating expenses				
Salaries and employee benefits	**64.73**	62.02	59.28	56.76
Premises and equipment	**9.50**	10.35	10.36	10.08
Other administrative expenses	**52.54**	42.69	50.64	57.66
	126.77	115.06	120.28	124.50
Profit before income taxes	**79.00**	85.67	19.38	48.15
Income taxes	**10.55**	11.53	2.68	4.51
Profit for the year	**$ 68.45**	$ 74.14	$ 16.70	$ 43.64

Jump to table of contents

Management's Discussion and Analysis

As at March 4, 2014

Statistical	2013	2012	2011	2010
Average Assets	$ 13,178.00	$ 14,443.00	$ 14,456.00	$ 13,538.84
Average Cash, Securities and Deposits with regulated financial institutions	9,907.00	8,882.00	8,935.00	8,104.34
Average Loans	1,311.00	1,936.00	1,642.00	1,357.86
Average Debt securities issued	1,021.00	706.00	550.00	545.34
Average Subordinated liabilities	169.00	169.00	208.00	200.91
Gross Income	349.29	411.03	438.76	406.23
Interest Income	233.46	304.18	336.83	306.61
Interest Expense	200.16	264.30	282.46	254.39
Interest Margin	33.30	39.88	54.37	52.22
Profit for the year	$ 68.45	$ 74.14	$ 16.70	$ 43.64
As a Percent of Average Assets				
Average Cash & Securities and Deposits with regulated FI's	75.18 %	61.50 %	61.81 %	59.86 %
Average Loans	9.95 %	13.40 %	11.36 %	10.03 %
Average Debt securities issued	7.75 %	4.89 %	3.80 %	4.03 %
Average Subordinated liabilities	1.28 %	1.17 %	1.44 %	1.48 %
Gross Income	2.65 %	2.85 %	3.04 %	3.00 %
Interest Income	1.77 %	2.11 %	2.33 %	2.26 %
Interest Expense	1.52 %	1.83 %	1.95 %	1.88 %
Interest Margin	0.25 %	0.28 %	0.38 %	0.39 %
Net Financial Income	0.67 %	0.64 %	0.30 %	0.57 %
Profit before Taxes	0.60 %	0.59 %	0.13 %	0.36 %
Profit for the Year	0.52 %	0.51 %	0.12 %	0.32 %
Yields / Costs				
Cash, Securities and deposits with regulated financial institutions	1.61 %	1.71 %	2.07 %	2.06 %
Loans	2.28 %	2.20 %	2.10 %	1.64 %
Debt securities issued	1.78 %	2.34 %	2.51 %	2.22 %
Returns on Average:				
Assets	0.52 %	0.51 %	0.12 %	0.32 %
Share Capital	23.27 %	26.45 %	8.96 %	26.81 %
Equity	8.19 %	9.58 %	2.66 %	7.46 %
Returns on Average:				
Assets (before taxes & dividends)	0.60 %	0.59 %	0.13 %	0.36 %
Share Capital (before taxes & dividends)	26.86 %	30.56 %	10.40 %	29.57 %
Equity (before taxes & dividends)	9.45 %	11.07 %	3.08 %	8.23 %
Dividends as % Year-End Capital	4.55 %	4.11 %	3.69 %	5.82 %
Debt/Equity Ratio	12.92	16.53	19.23	22.04
Dividends Per Share - Class A (cents)	4.75	2.00	2.00	2.00
Dividends Per Share - Class B and C (cents)	1.38	2.00	2.00	2.00
Dividends Per Share - Class E (cents)	–	200.00	200.00	200.00
Average Deposits	$ 8,682.00	$ 8,759.00	$ 9,196.00	$ 8,119.92
Average Notes	1,021.30	705.50	550.40	549.90
Average Repurchase Agreements	143.90	180.20	138.00	578.00
Average Share Capital	294.15	280.35	186.32	162.80
Average Equity	836.00	774.00	629.00	584.86
Dividends	13.98	11.92	10.05	9.60

Jump to table of contents

Central 1 Credit Union - Two Year Summary – CGAAP

December 31 (Millions of dollars unless otherwise indicated)		2009		2008
Assets				
Cash	$	**202.59**	$	228.38
Securities		**8,254.18**		5,299.60
Deposit with regulated financial institutions		**54.75**		126.47
Loans		**2,165.96**		2,425.95
Other		**378.17**		477.39
Total Assets	$	**11,055.65**	$	8,557.79
Liabilities				
Notes	$	**465.29**	$	526.23
Non Credit Union Deposits		**301.72**		573.00
Credit Union Deposits		**8,578.26**		6,365.19
Obligations related to securities sold under repurchase agreements		**748.65**		193.33
Other		**209.80**		414.76
		10,303.72		8,072.51
Subordinated Debt		**200.58**		50.68
Members' Equity				
Share capital		**162.58**		162.58
Contributed Surplus		**87.90**		87.90
Retained Earnings		**262.05**		188.06
Accumulated Other Comprehensive Income		**38.82**		(3.94)
		551.35		434.60
Total Liabilities and Members' Equity	$	**11,055.65**	$	8,557.79

Income Statement - For The Year Ended December 31		2009		2008
Interest Income				
Securities	**$**	**181.90**	$	170.69
Deposit with regulated financial institutions		**2.28**		7.59
Loans		**22.94**		74.81
		207.12		253.09
Interest expense				
Notes		**8.25**		30.70
Deposits		**125.39**		173.08
Subordinated Debt		**3.50**		2.21
		137.14		205.99
Interest Margin		**69.98**		47.10
Gains on disposal of financial instruments		**18.12**		25.25
Change in fair value of financial instruments		**52.46**		(27.77)
Net Financial income		**140.56**		44.58
Provision for credit losses		**1.46**		1.11
		139.10		43.47
Other Income		**87.60**		73.89
Net interest and other income		**226.70**		117.36
Operating Expenses		**109.64**		83.46
Income from operations before unusual items		**117.06**		33.90
Unusual items		–		(2.44)
Income before Income Taxes		**117.06**		31.46
Income Taxes		**17.16**		4.90
Net Income	**$**	**99.90**	$	26.56

Statistical		2009		2008
Average Assets	$	9,371.72	$	6,611.00
Average Cash, Securities and Amounts on Deposit with regulated financial institutions		7,788.49		4,436.00
Average Loans		1,266.80		1,967.00
Average Debt		8,577.46		6,081.85
Average Subordinated Debt		87.85		50.00
Gross Income		294.73		326.98
Interest Income		207.13		253.09
Interest Expense		137.14		205.99
Interest Margin		69.98		47.10
Net Income	$	99.90	$	26.56
As A Percent Of Average Assets				
Average Cash & Securities and Amounts on Deposit		83.11 %		67.10 %
Average Loans		13.52 %		29.75 %
Average Debt		91.52 %		92.00 %
Average Subordinated Debt		0.94 %		0.76 %
Gross Income		3.14 %		4.95 %
Interest Income		2.21 %		3.83 %
Interest Expense		1.46 %		3.12 %
Interest Margin		0.75 %		0.71 %
Interest Margin and gains on disposal of financial instruments		1.48 %		0.66 %
Net Income before Taxes		1.25 %		0.48 %
Net Income		1.07 %		0.40 %
Yields / Costs				
Cash, Securities and Amounts on deposit with regulated financial institutions		2.36 %		4.02 %
Loans		1.81 %		3.80 %
Deposits & Notes		1.56 %		3.35 %
Returns on Average:				
Assets		1.07 %		0.40 %
Capital		61.45 %		19.41 %
Equity		19.62 %		7.69 %
Returns on Average:				
Assets (before taxes & dividends)		1.25 %		0.48 %
Capital (before taxes & dividends)		72.00 %		22.99 %
Equity (before taxes & dividends)		23.00 %		9.11 %
Dividends as % Year-End Capital		15.89 %		4.10 %
Debt/Equity Ratio		18.69		18.57
Dividends Per Share - Class A, B and C (cents)		12.00		4.10
Dividends Per Share - Class E (cents)		200.00		–
Average Deposits	$	7,330.00	$	5,237.00
Average Notes		532.47		793.05
Average Repurchase Agreements		714.99		51.80
Average Capital		162.58		136.87
Average Equity		509.08		345.53
Dividends		25.84		6.67

Five Year Summary: British Columbia Credit Union System

As at December 31 (Millions of dollars)	2013	2012	2011	2010	2009
Cash & Central 1 Operating Account	**$ 605.36**	$ 594.86	$ 607.82	$ 697.41	$ 597.65
Investments – Liquid	**6,329.73**	6,534.27	7,016.95	6,364.12	7,818.66
– Other	**205.49**	193.95	188.61	115.86	121.90
Loans[2]	**50,828.68**	48,822.73	45,318.38	41,402.70	38,976.72
Other	**989.85**	1,047.99	998.54	881.79	911.25
Total Assets	**$ 58,959.11**	$ 57,193.80	$ 54,130.30	$ 49,461.88	$ 48,426.18
Borrowed Funds	**$ 2,260.11**	$ 3,036.57	$ 3,583.14	$ 1,484.14	$ 2,459.03
Members' Deposits	**51,971.58**	49,763.57	46,348.37	44,107.02	42,420.77
Non-Equity Shares	**61.82**	64.91	63.54	63.07	63.94
Retained Earnings & Equity Shares	**3,682.89**	3,360.08	3,144.84	2,865.10	2,665.13
Payables & Other	**982.71**	968.67	990.41	942.55	817.32
Total Liabilities	**$ 58,959.11**	$ 57,193.80	$ 54,130.30	$ 49,461.88	$ 48,426.18
For the Year Ended					
Average Assets	**58,013.25**	55,363.66	52,055.75	48,231.73	45,858.00
Average Liquidity	**7,034.36**	7,080.75	7,383.81	6,912.38	6,302.04
Average Loans	**49,762.93**	47,092.21	43,628.62	40,284.23	38,500.66
Average Deposits	**51,006.75**	48,150.31	45,604.18	43,182.51	41,081.54
Financial Margin	**1,215.50**	1,223.44	1,225.39	1,215.86	1,065.09
Non-Financial Income	**266.06**	258.97	261.73	301.76	330.78
Non-Financial Expense	**1,157.55**	1,159.71	1,098.00	1,105.32	1,048.08
Net Loan Loss Expense	**30.65**	38.21	42.11	52.55	54.23
Net Operating Income	**314.53**	315.80	397.40	382.57	293.56
Income Taxes	**74.23**	40.94	47.32	71.91	41.91
Net Income[3]	**240.30**	274.87	350.07	310.66	251.65
Return on Equity	**7.05 %**	8.07 %	11.12 %	10.70 %	9.20 %

Jump to table of contents

Five Year Summary: British Columbia Credit Union System

As at December 31 (Millions of dollars)	2013	2012	2011	2010	2009
Statistical					
As a Percentage of Average Assets					
Average Liquidity	**12.13**	**12.79**	14.18	14.33	13.74
Average Loans	**85.78**	**85.06**	83.81	83.52	83.96
Average Deposits	**87.92**	**86.97**	87.61	89.53	89.58
Gross Income	**4.18**	**4.12**	4.40	4.57	5.00
Financial Income	**3.52**	**3.69**	3.92	3.98	4.26
Financial Expense	**1.42**	**1.48**	1.56	1.46	1.94
Financial Margin	**2.10**	**2.21**	2.35	2.52	2.32
Non-Financial Income	**0.46**	**0.47**	0.50	0.63	0.72
Non-Financial Expense	**2.00**	**2.09**	2.11	2.29	2.29
Net Loan Loss Expense	**0.05**	**0.07**	0.08	0.11	0.12
Net Operating Income	**0.54**	**0.57**	0.76	0.79	0.64
Income Taxes	**0.13**	**0.07**	0.09	0.15	0.09
Net Income	**0.41**	**0.50**	0.67	0.64	0.55
Yields/Costs					
Investments[4]	**1.63 %**	**1.93 %**	2.01 %	1.82 %	2.79 %
Loans	**3.87 %**	**4.04 %**	4.33 %	4.40 %	4.58 %
Deposits	**1.55 %**	**1.60 %**	1.71 %	1.70 %	2.12 %
Number of Credit Unions	**43**	**44**	45	45	46
Number of Branches[5]	**371**	**369**	371	370	368
Number of ATMs	**565**	**555**	549	555	533
Number of Members	**1,877,940**	**1,873,992**	1,823,015	1,731,700	1,695,281

[1] Income statement for three credit unions with September 30 year-end is adjusted to twelve months ending December 31.
[2] Figures are net of allowance for doubtful loans, but include accrued interest.
[3] After taxes, before dividends, patronage refunds and capital gains/extraordinary items.
[4] Excludes net interest income on Interest Rate/Foreign Exchange Contracts and Trading Gains (Losses).
[5] Excludes credit union insurance subsidiaries.
Note: 2013 figures are unaudited

Five Year Summary: Ontario Credit Union System

As at December 31 (Millions of dollars)	2013	2012	2011	2010	2009	2008
Cash & Central 1 Operating Account						
Cash & Investments						
Investments – Liquid (includes Cash)	**$ 3,526.02**	$ 3,805.90	$ 3,517.42	$ 2,921.57	$ 2,839.13	$ 2,152.04
– Other	**625.83**	665.61	574.45	649.82	555.03	550.08
Loans[1]	**28,275.69**	25,730.42	22,167.44	19,130.50	17,636.88	16,876.26
Other	**598.61**	555.23	495.05	534.64	528.30	518.50
Total Assets	**$ 33,026.15**	$ 30,757.16	$ 26,754.36	$ 23,236.53	$ 21,559.34	$ 20,096.88
Borrowed Funds	**$ 2,331.94**	$ 1,960.00	$ 1,226.13	$ 263.72	$ 388.00	$ 388.90
Members' Deposits	**27,997.07**	26,264.35	23,283.03	20,856.02	19,240.90	17,922.39
Non-Equity Shares	**n/a**	n/a	n/a	634.97	578.60	508.15
Retained Earnings & Equity Shares	**1,358.86**	1,256.03	1,119.51	1,055.04	942.59	897.82
Payables & Other	**1,338.28**	1,276.78	1,125.69	426.78	409.25	379.62
Total Liabilities	**$ 33,026.15**	$ 30,757.16	$ 26,754.36	$ 23,236.53	$ 21,559.34	$ 20,096.88
For the Period Ended						
Average Assets	**32,097.34**	29,438.19	25,530.99	22,530.99	20,928.39	19,651.31
Average Liquidity	**3,675.74**	3,571.52	3,321.94	3,361.52	3,057.05	2,742.60
Average Loans	**27,172.89**	24,654.89	21,159.34	18,647.50	17,344.24	16,395.94
Average Deposits	**27,385.54**	25,270.39	22,428.85	20,157.28	18,718.36	17,393.77
Financial Margin	**739.86**	720.32	639.25	570.48	493.09	473.91
Non-Financial Margin	**185.06**	174.64	143.86	161.58	184.58	174.38
Non-Financial Expense	**733.94**	705.65	654.98	640.04	602.59	569.73
Net Loan Loss Expense	**32.19**	44.17	29.83	39.48	43.25	26.15
Net Operating Income	**160.50**	146.74	99.32	114.90	95.77	103.08
Income Taxes	**15.39**	17.70	14.81	17.48	13.95	14.19
Net Income[2]	**145.11**	129.04	84.52	81.36	59.43	58.88
Return on Equity	**6.69 %**	6.46 %	4.80 %	5.97 %	5.61 %	6.45 %

Jump to table of contents

Five Year Summary: Ontario Credit Union System

As at December 31 (Millions of dollars)	2013	2012	2011	2010	2009	2008
Statistical						
As a Percentage of Average Assets						
Average Liquidity	**11.45 %**	12.13 %	13.01 %	14.92 %	14.61 %	13.96 %
Average Loans	**84.66 %**	83.75 %	82.88 %	82.76 %	82.87 %	83.43 %
Average Deposits	**85.32 %**	85.84 %	87.85 %	89.46 %	89.44 %	88.51 %
Gross Income	**4.29 %**	4.50 %	4.73 %	5.05 %	5.43 %	6.00 %
Financial Income	**3.70 %**	3.91 %	4.06 %	4.34 %	4.55 %	5.11 %
Financial Expense	**1.40 %**	1.47 %	1.56 %	1.70 %	2.09 %	2.58 %
Financial Margin	**2.31 %**	2.45 %	2.50 %	2.53 %	2.36 %	2.41 %
Non-Financial Income	**0.58 %**	0.59 %	0.56 %	0.72 %	0.88 %	0.89 %
Non-Financial Expense	**2.29 %**	2.40 %	2.57 %	2.84 %	2.88 %	2.90 %
Net Loan Loss Expense	**0.10 %**	0.15 %	0.12 %	0.18 %	0.21 %	0.13 %
Net Operating Income	**0.50 %**	0.50 %	0.39 %	0.51 %	0.46 %	0.52 %
Income Taxes	**0.05 %**	0.06 %	0.06 %	0.08 %	0.07 %	0.07 %
Net Income	**0.45 %**	0.44 %	0.33 %	0.36 %	0.28 %	0.30 %
Yields/Costs						
Investments	**1.45 %**	1.83 %	1.59 %	1.68 %	2.04 %	2.79 %
Loans	**4.10 %**	4.32 %	4.61 %	4.89 %	5.08 %	5.59 %
Deposits	**1.55 %**	1.62 %	1.74 %	1.88 %	2.31 %	2.81 %
Number of Credit Unions	**90**	100	105	119	137	143
Number of Branches[4]	**502**	505	475	470	481	449
Number of ATMs	**588**	570	553	546	570	570
Number of Members (thousands)	**1,326**	1,310	1,226	1,191	1,209	1,222

[1] Figures are net of allowance for doubtful loans
[2] After taxes, dividends, patronage refunds and extraordinary items
[3] Interest yields and cost calculated as a percentage of average assets or liabilities
[4] Where applicable, Income statement for member credit unions with September 30 year-ends have been adjusted to twelve months ending December 31.

Glossary of Financial Terms

Asset-Backed Commercial Paper (ABCP) is a short-term investment with a maturity that is typically less than 180 days. The commercial paper is backed by physical assets such as trade receivables, and is generally used for short-term financing needs.

Basis Point is one one-hundredth of a percentage point.

Borrowing Multiple is the ratio of Central 1's total borrowings to regulatory capital.

Capital Base includes Tier 1 and Tier 2 capital, net of certain deductions.

Capital Ratio is the ratio of risk-adjusted assets to capital as defined by provincial legislation. The provincial legislation closely approximates that applied to other financial institutions by the Superintendent of Financial Institutions (Canada).

Collective Allowance is maintained to cover impairment in the existing credit portfolio that cannot yet be associated with specific credit assets. Central 1's approach to establishing and maintaining the general allowance is based on the guideline issued by our regulator, OSFI. The general allowance is reviewed on a quarterly basis and a number of factors are considered when determining its appropriate level. Central 1 employs a general allowance model that applies historical expected and unexpected loss rates, based on probabilities of default and loss given default parameters, to current balances.

Credit and Counterparty Risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation.

Credit Union Current Accounts are transactional accounts held by members of Central 1 to facilitate their day-to-day banking transactions

Derivatives are contracts which require little or no initial investment and where payments between parties are "derived" from movements in interest or foreign exchange rates, indexes, equities or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Earnings Per Share (EPS) is calculated by dividing Profit by the average number of member common shares outstanding.

Excess Liquidity Pool (ELP) supports the structural and tactical liquidity needs of member credit unions in pursuit of their regular, day-to-day business objectives. The pool is primarily funded by the Class A member non-mandatory deposit base as well as with capital market funding (commercial paper, medium-term notes, subordinated debt) and deposits from non-Class A members.

Fair Value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Hedging is a risk management technique used to neutralize or manage interest rate, foreign currency, equity, commodity or credit exposures arising from normal business activities.

Impaired Loans are loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Insurance Risk is the risk of loss due to actual experience being different from that assumed when an insurance product was designed and priced.

Interest Margin is the difference between the amounts of interest earned on interest bearing assets less the amounts of interest paid on liabilities that have interest charges associated with them and include both on-and-off-balance sheet financial instruments.

Interest Rate Risk is the risk that an investment's value will change due to a change in the level of interest rates.

Legal and Regulatory Risk is the risk of not complying with laws, contractual agreements or other legal requirements, as well as regulatory requirements, regulatory changes or regulators' expectations. Failure to properly manage legal and regulatory risk may result in litigation claims, financial losses, regulatory sanctions, an inability to execute business strategies, and potential harm to Central 1's reputation.

Liquidity is the ability to meet debt obligations, guarantees and commitments as they become due through the use of cash or the conversion of assets that are readily convertible to cash.

Liquidity and Funding Risk is the potential for loss if Central 1 is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, investment and pledging commitments.

Loss Provisions consist of specific loss provisions and general loss provisions. Specific loss provisions are those specifically allocated to individual assets based on management's evaluation of the quality of the individual asset and the likelihood of loss associated with the specific asset. General provisions are those made on the basis of past experience and the evaluation of overall asset quality in recognition of the fact that losses are inherent in any portfolio of assets.

Mandatory Reserve Pool (MRP) is maintained to provide extraordinary liquidity to the 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.

Mark-to-Market represents the valuation of securities and derivatives at market rates as of the balance sheet date, where required by accounting rules.

Market Risk is the potential for adverse changes in the value of Central 1's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, and credit spreads, as well as the risk of credit migration and default.

Net Income is a performance measure used to describe the B.C. and Ontario credit union systems. It is the source of retained earnings and is equal to net operating income minus equity share dividends, patronage refunds, charitable or community donations and income taxes plus capital gains (losses).

Net Interest Income consists of earnings on assets, such as loans and securities, including interest and dividend income and Central 1's share of income from investments accounted for using the equity method of accounting, less interest expense paid on liabilities, such as deposits.

Net Operating Income (loss) (NOI) is a performance measure used to describe the B.C. and Ontario credit union systems. NOI is the main source of changes in equity and the source of any dividend and patronage refund payments to members. NOI is defined as total revenues minus total expenses, excluding income taxes, dividends, patronage refunds, charitable/community donations and other comprehensive income. Capital gains or losses are also excluded from NOI.

Operational Risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.

OSFI is the Office of the Superintendent of Financial Institutions (Canada)

Productivity Ratio is calculated as operating expenses divided by total income, expressed as a percentage.

Provision for Credit Losses is a charge to income that represents an amount deemed adequate by management to fully provide for impairment in loans and acceptances and other credit instruments, given the composition of the portfolios, the probability of default, the economic environment and the allowance for credit losses already established.

Reputation Risk is the risk of a negative impact on Central 1 that results from a deterioration in stakeholders' perception of Central 1's reputation. These potential impacts include revenue loss, litigation, regulatory sanction or additional oversight and declines in member loyalty.

Return on Equity (ROE) is calculated as profit for the year, as a percentage of average member shareholders' equity. Member shareholders' equity consists of share capital, contributed surplus, accumulated other comprehensive income (loss), retained earnings and reserves.

Securities Acquired under Reverse Repurchase Agreements are instruments supported by the pledge of collateral, which arise from transactions that involve the borrowing or purchasing of securities.

Securities Sold under Repurchase Agreements are low-cost, low-risk liabilities, supported by collateral, which arise from transactions that involve the lending or selling of securities.

Jump to table of contents

Specific Allowances reduce the carrying value of specific credit assets to the amount we expect to recover if there is evidence of deterioration in credit quality.

Swaps are contractual agreements between two parties to exchange a series of cash flows with counter-parties generally exchanging fixed and floating rate interest payments based on a notional value in a single currency.

Tier 1 Capital is primarily composed of member equity, contributed surplus, and retained earnings.

Tier 2 Capital is primarily composed of debentures and subordinated debt.

Yield Curve The range of interest rates that apply to a class of assets or liabilities at a particular point in time over a range of maturities (eg 30-day rate, 60-day rate, 90-day rate, 1 year rate, 5 year rate)

Consolidated **Financial Statements**

Years ended December 31, 2013, 2012 and 2011

Financial Reporting Responsibilities

The accompanying statements of Central 1 have been prepared by management, which is responsible for their integrity, objectivity, and reliability as well as for selecting appropriate accounting policies that are consistent with International Financial Reporting Standards. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

The financial information presented elsewhere in this Annual Report is consistent with the information in the financial statements.

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conduct that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The credit union's Board of Directors, acting through its Audit and Finance Committee composed of directors, oversees management's responsibilities for the financial reporting and internal control systems. Our external auditors review our systems and periodically are asked to undertake in-depth system reviews of specific functional operations.

The Federal and Provincial Superintendents of Financial Institutions annually conduct a joint examination and make such inquiries into the affairs of the credit union as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that the credit union is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, have examined our financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Audit and Finance Committee to discuss their audit and matters arising therefrom.

D. Wright
President & Chief Executive Officer

H. Blackburn
Chief Financial Officer &
Senior Vice-President, Strategy

Independent Auditors' Report

To the Members of Central 1 Credit Union

We have audited the accompanying consolidated financial statements of Central 1 Credit Union, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of profit, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Central 1 Credit Union as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 21, 2014
Vancouver, Canada

Jump to table of contents

Consolidated Statements of Financial Position

As at December 31

(Thousands of dollars)	Note	December 31, 2013	December 31, 2012	December 31, 2011
Assets				
Cash	(7)	$ **74,153**	$ 90,238	$ 100,795
Deposits with regulated financial institutions	(8)	**7,132**	106,275	5,357
Pledged trading assets	(9)	**64,443**	135,572	51,652
Reinvestment assets under the CMB and IMPP programs	(10)	**306,914**	1,652,244	2,205,742
Non-pledged trading assets	(9)	**4,312,413**	2,678,954	3,998,708
Derivative assets	(11)	**29,383**	34,018	41,347
Loans	(12)	**1,157,972**	2,069,521	2,533,032
Investment securities	(13)	**5,553,354**	6,386,581	3,891,039
Secured loans to members	(14)	**229,620**	561,511	1,167,423
Current tax assets		**4,338**	–	–
Property and equipment	(15)	**16,111**	17,303	16,803
Intangible assets	(16)	**12,198**	6,412	2,568
Deferred tax assets	(17)	**6,371**	6,389	8,197
Investment in affiliates	(18)	**120,107**	110,170	108,831
Other assets	(19)	**299,933**	294,231	453,685
		$ **12,194,442**	$ 14,149,419	$ 14,585,179
Liabilities				
Deposits designated as trading	(20)	$ **3,398,893**	$ 2,286,078	$ 2,034,219
Derivative liabilities	(11)	**150,645**	216,042	211,967
Debt securities issued	(21)	**1,097,509**	1,170,804	375,516
Deposits	(22)	**5,167,617**	6,564,336	7,154,651
Obligations under the CMB and IMPP programs	(23)	**831,762**	2,259,992	3,246,227
Subordinated liabilities	(24)	**169,139**	168,859	168,567
Provisions	(25)	**3,991**	5,280	5,798
Securities under repurchase agreements	(26)	**106,706**	201,433	57,020
Current tax liabilities		**–**	2,580	4,281
Deferred tax liabilities	(17)	**4,699**	2,929	2,981
Other liabilities	(27)	**387,143**	463,996	602,924
		11,318,104	13,342,329	13,864,151
Equity				
Share capital	(28)	**307,185**	290,299	272,062
Contributed surplus		**87,901**	87,901	87,901
Retained earnings	(4)	**433,171**	374,841	310,782
Accumulated other comprehensive income	(4)	**35,078**	39,459	35,917
Reserves	(29)	**3,130**	4,985	5,281
Total equity attributable to members of Central 1		**866,465**	797,485	711,943
Non-controlling interest		**9,873**	9,605	9,085
		876,338	807,090	721,028
		$ **12,194,442**	$ 14,149,419	$ 14,585,179
Guarantees, commitments, and contingencies	(36)			
Commitments under leasing arrangements	(37)			

See accompanying notes to the consolidated financial statements

Approved by the Directors:

Terry Enns
Chairperson

Daniel A. Burns
Chairperson
Audit and Finance Committee

Jump to table of contents

Consolidated Statements of Profit

For the Years Ended December 31

(Thousands of dollars)	Note	December 31, 2013	December 31, 2012	December 31, 2011
Interest income				
Securities		**$ 159,427**	$ 151,294	$ 184,297
Deposits with regulated financial institutions		**295**	296	1,030
Loans		**29,917**	42,576	34,507
Secured loans and reinvestment assets		**43,817**	110,016	116,994
		233,456	304,182	336,828
Interest expense				
Debt securities issued		**18,159**	16,499	13,776
Deposits		**122,729**	129,637	142,801
Obligations under the CMB and IMPP programs		**52,726**	111,614	117,495
Subordinated liabilities		**6,542**	6,553	8,384
		200,156	264,303	282,456
Interest margin		**33,300**	39,879	54,372
Gain on disposal of financial instruments	(30)	**26,152**	66,623	98,409
Changes in fair value of financial instruments	(31)	**29,290**	(15,044)	(109,744)
Net financial income		**88,742**	91,458	43,037
(Recovery) provision for credit losses	(12)	**(1,203)**	(2,425)	5,308
		89,945	93,883	37,729
Other income	(32)	**115,829**	106,857	101,932
Net financial and other income		**205,774**	200,740	139,661
Operating expenses				
Salaries and employee benefits	(33)	**64,729**	62,021	59,282
Premises and equipment		**9,503**	10,352	10,359
Other administrative expenses	(34)	**52,544**	42,692	50,642
		126,776	115,065	120,283
Profit before income taxes		**78,998**	85,675	19,378
Income taxes	(35)	**10,548**	11,533	2,678
Profit for the year		**$ 68,450**	$ 74,142	$ 16,700

See accompanying notes to the consolidated financial statements

Jump to table of contents

Consolidated Statements of Comprehensive Income

For the Years Ended December 31

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Profit for the year	**$ 68,450**	$ 74,142	$ 16,700
Other comprehensive income (loss), net of tax			
Fair value reserves (available-for-sale financial assets)			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value[1]	**7,636**	12,509	40,399
Reclassification of realized gains on available-for-sale assets to profit or loss[2]	**(15,509)**	(8,138)	(23,993)
	(7,873)	4,371	16,406
Net actuarial gains (losses) on employee benefit plans[3]	**3,492**	(829)	(3,241)
Other comprehensive income (loss), net of tax	**(4,381)**	3,542	13,165
Comprehensive income, net of tax	**$ 64,069**	$ 77,684	$ 29,865
Income taxes (recoveries) deducted from the above items			
Income tax on items that may be reclassified subsequently to profit or loss			
[1]Net change in fair value of available-for-sale assets	**$ 812**	$ 2,269	$ 6,518
[2]Reclassification of realized gains on available-for-sale assets to profit or loss	**$ (2,783)**	$ (1,204)	$ (3,922)
[3]Net actuarial gains (losses) on employee benefit plans	**$ 309**	$ (135)	$ (530)

See accompanying notes to the consolidated financial statements

Statement of Changes in Equity

For the Year Ended December 31, 2013

	Attributable to Equity holders									
(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
Balance at January 1, 2013	$ 290,299	$ 87,901	$ 374,841	$ 46,326	$ (6,867)	$ 4,985	$ 797,485	$ 9,605	$ 807,090
Total Comprehensive income for the year									
Profit for the year			68,402				68,402	48	68,450
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(7,873)			(7,873)		(7,873)
Employee benefits reserve (net of tax)					3,492		3,492		3,492
Total comprehensive income	–	–	68,402	(7,873)	3,492	–	64,021	48	64,069
Transactions with owners, recorded directly in equity									
Dividends to members			(13,978)				(13,978)		(13,978)
Related tax savings			2,054				2,054		2,054
Class "E" share redemptions			(4)				(4)		(4)
Related tax savings			1				1		1
Net Classes "A", "B" and "C" shares issued	16,886						16,886		16,886
Transfer from reserves			1,855			(1,855)	–		–
Preferred shares issued by subsidiary							–	220	220
Total contributions and distributions to owners	16,886	–	(10,072)	–	–	(1,855)	4,959	220	5,179
Balance at December 31, 2013	$ 307,185	$ 87,901	$ 433,171	$ 38,453	$ (3,375)	$ 3,130	$ 866,465	$ 9,873	$ 876,338

Profit attributable to:		2013	2012	2011
	Members of Central 1	68,402	74,058	16,506
	Non-controlling interest	48	84	194
		$ 68,450	$ 74,142	$ 16,700
Total Comprehensive income attributable to:				
	Members of Central 1	64,021	77,600	29,671
	Non-controlling interest	48	84	194
		$ 64,069	$ 77,684	$ 29,865

See accompanying notes to the consolidated financial statements

Statement of Changes in Equity

For the Year Ended December 31, 2012

	Attributable to Equity holders								
(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
Balance at January 1, 2012 (Note 4)	$ 272,062	$ 87,901	$ 310,782	$ 41,955	$ (6,038)	$ 5,281	$ 711,943	$ 9,085	$ 721,028
Total Comprehensive income for the year									
Profit for the year			74,058				74,058	84	74,142
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				4,371			4,371		4,371
Employee benefits reserve (net of tax)					(829)		(829)		(829)
Total comprehensive income	–	–	74,058	4,371	(829)	–	77,600	84	77,684
Transactions with owners, recorded directly in equity									
Dividends to members			(11,924)				(11,924)		(11,924)
Related tax savings			1,665				1,665		1,665
Class "E" share redemptions			(42)				(42)		(42)
Related tax savings			6				6		6
Net Classes "A", "B" and "C" shares issued	18,237						18,237		18,237
Preferred shares issued by subsidiary							–	436	436
Transfer from reserves			296			(296)	–		–
Total contributions and distributions to owners	18,237	–	(9,999)	–	–	(296)	7,942	436	8,378
Balance at December 31, 2012	$ 290,299	$ 87,901	$ 374,841	$ 46,326	$ (6,867)	$ 4,985	$ 797,485	$ 9,605	$ 807,090

See accompanying notes to the consolidated financial statements

Statement of Changes in Equity

For the Year Ended December 31, 2011

	Attributable to Equity holders								
(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
Balance at January 1, 2011 (Note 4)	$ 164,983	$ 87,901	$ 302,923	$ 25,549	$ (2,797)	$ 5,594	$ 584,153	$ $8,372	$ 592,525
Total Comprehensive income for the year									
Profit for the year			16,506				16,506	194	16,700
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				16,406			16,406		16,406
Employee benefits reserve (net of tax)					(3,241)		(3,241)		(3,241)
Total comprehensive income	–	–	16,506	16,406	(3,241)	–	29,671	194	29,865
Transactions with owners, recorded directly in equity									
Dividends to members			(10,046)				(10,046)		(10,046)
Related tax savings			1,412				1,412		1,412
Class “E” share redemptions			(379)				(379)		(379)
Related tax savings			53				53		53
Net Classes “A”, “B” and “C” shares issued	107,079						107,079		107,079
Preferred shares issued by subsidiary							–	519	519
Transfer from reserves			313			(313)	–		–
Total contributions and distributions to owners	107,079	–	(8,647)	–	–	(313)	98,119	519	98,638
Balance at December 31, 2011	$ 272,062	$ 87,901	$ 310,782	$ 41,955	$ (6,038)	$ 5,281	$ 711,943	$ 9,085	$ 721,028

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Cash flows from operating activities			
Profit for the year	$ 68,450	$ 74,142	$ 16,700
Adjustments for:			
Depreciation and amortization	(2,428)	3,899	4,718
Net interest income	(33,300)	(39,879)	(54,372)
Gain on disposal of financial instruments	(26,152)	(66,623)	(98,409)
Change in fair value of financial instruments	(29,290)	15,044	109,744
Income tax expense	10,548	11,533	2,678
(Recovery) provision for credit losses	(1,203)	(2,425)	5,308
Other items, net	(9,352)	(12,203)	42,039
	(22,727)	(16,512)	28,406
Change in trading assets	(1,563,944)	1,232,677	585,172
Change in settlements in transit	(89,265)	19,772	47,552
Change in loans	908,910	472,278	(1,422,090)
Change in deposits designated as trading	1,113,228	259,922	(55,996)
Change in deposits	(1,391,768)	(585,895)	613,752
Change in derivatives assets and liabilities	(46,544)	(22,781)	(23,946)
	(1,092,110)	1,359,461	(227,150)
Interest received	241,253	312,033	340,827
Interest paid	(209,462)	(264,956)	(279,560)
Income tax (refund) paid	(7,701)	(11,054)	2,108
Net cash from operating activities	(1,068,020)	1,395,484	(163,775)
Cash flows from investing activities			
Change in deposits with regulated financial institutions	99,132	(100,905)	135,012
Change in reinvestment assets under the CMB and IMPP programs	1,339,370	538,970	(552,663)
Change in investment securities	830,252	(2,473,916)	112,138
Change in secured loans to members	328,620	595,141	745,838
Change in assets available-for-sale	–	5,897	10,772
Change in property and equipment	3,142	(3,007)	(1,854)
Acquisition of intangible assets	(4,940)	(4,867)	(655)
	2,595,576	(1,442,687)	448,588
Cash flows from financing activities			
Change in obligations under the CMB and IMPP programs	(1,390,157)	(906,885)	(22,911)
Change in subordinated liabilities	–	–	(32,000)
Change in debt securities issued	(72,634)	795,072	(244,999)
Change in securities under repurchase agreements	(94,702)	144,363	(105,268)
Dividends paid	(3,034)	(14,141)	(7,213)
Issuance of shares	16,886	18,237	107,079
	(1,543,641)	36,646	(305,312)
Decrease in cash	(16,085)	(10,557)	(20,499)
Cash – beginning of year	90,238	100,795	121,294
Cash – end of year	$ 74,153	$ 90,238	$ 100,795

See accompanying notes to the consolidated financial statements

Jump to table of contents

Table of Contents

Notes to the Consolidated Financial Statements

Years Ended December 31, 2013, 2012 and 2011

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 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 consolidated financial statements have been prepared in accordance with 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 consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 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 consolidated financial statements are to be prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and hence, IFRS for publicly accountable enterprises. These accounting policies conform, in all material respects, to IFRS.

(b) Basis of measurement

The 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 13*.
- 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 consolidated financial statements are presented in Canadian dollars, which is Central 1's functional currency.

(d) Use of estimates and judgments

In preparing the consolidated financial statements, management is required to make estimates and assumptions based on information as of the date of the consolidated financial statements. Certain amounts recorded in the 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.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in *Note 5*.

3. Accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the OSFI, are summarized below.

(a) Basis of consolidation

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

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

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

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

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

Central 1 owns all the common shares of Stabilization Fund Corporation ("SFC"). Members of the Board of Directors of SFC are employees of Central 1 and have been appointed to the Board of SFC by Central 1. SFC has no employees and management functions are performed by Central 1 employees pursuant to contractual agreements. Management has concluded that Central 1 has control over SFC. Central 1 recognizes the equity of SFC as a reserve in the consolidated statement of financial position due to the restrictions on distribution of these amounts as described in *Note 3(x)*.

Although Central 1 has 51% ownership of the Class A shares of Credit Union Central of Canada ("CUCC"), management has concluded that Central 1 does not have control over CUCC.

Further information regarding Central 1's subsidiaries is contained in *Note 43*.

(b) Foreign currency

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate on the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated into the functional currency at the spot exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the exchange rate on the date when the fair value was measured.

Foreign currency differences arising on translation are recognized in profit or loss.

(c) Financial assets and liabilities

i) Recognition

Central 1 initially recognizes financial assets on the date on which they are acquired and recognizes financial liabilities on the date on which they are issued. Regular way purchases and sales of financial assets are recognized on the settlement date. A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

Classification of financial assets and liabilities are described in *Notes 3(d) to 3(k).*

iii) Derecognition

Central 1 derecognizes a financial asset when the contractual rights to the cash flows for the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which Central 1 neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred assets that qualify for derecognition that is created or retained by Central 1 is recognized as a separate asset or liability in the consolidated statement of financial position.

On derecognition of a financial asset, the difference between the carrying value of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognized in other comprehensive income is recognized as profit or loss.

Where Central 1 enters into a transaction whereby it transfers assets but retains all or substantially all the risks and rewards of ownership, the transferred assets are not derecognized. Transfers of assets where Central 1 retains all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Central 1 derecognizes a financial liability when its contractual obligations are discharged or expire.

iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, Central 1 has a legal right to set off the recognized amounts and it intends to either settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting, for a transfer of a financial asset that does not qualify for derecognition, Central 1 does not offset the transferred asset and the associated liability.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar instruments.

v) Fair value measurement

Note 6 contains information on the measurement of financial assets and liabilities recognized in the consolidated statements of financial position at fair value.

vi) Identification and Measurement of impairment

At each reporting date, Central 1 assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower or indications that a borrower or issuer will enter bankruptcy, and the disappearance of an active market for the security. It may also include other observable data related to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the group.

Central 1 considers evidence of impairment for loans and investment securities at both a specific asset and collective level. All individually significant loans and investment securities are assessed for specific impairment. All individually significant loans and investment securities not found to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and investment securities with similar characteristics.

In assessing collective impairment, Central 1 uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance against loans. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Central 1 writes off loans and investment securities when they are determined to be uncollectible. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an available-for-sale equity security is recognized in other comprehensive income.

vii) Designation at fair value through profit or loss

Central 1 has designated financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

(d) Cash

Cash includes notes and coins on hand and unrestricted cash balances held with financial institutions. Cash is carried at amortized cost in the consolidated statement of financial position.

(e) Deposits with regulated financial institutions

Amounts on deposit with regulated financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Amounts on deposit are initially measured at fair value plus incremental direct transaction costs. Amounts on deposit classified as loans and receivable are subsequently measured at their amortized cost using the effective interest rate, while amounts on deposit with regulated financial institutions classified as available-for-sale or designated as held for trading are subsequently measured at fair value. Changes in fair value on available-for-sale assets are recognized in other comprehensive income and on held for trading assets through profit or loss.

(f) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that Central 1 acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed for short-term profit or position-taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net financial income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables, it may be reclassified if Central 1 has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, it may be reclassified out of the trading category only in 'rare circumstances'.

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

Securitizations prior to 2010

Prior to 2010, Central 1 securitized pools of mortgages acquired from its member credit unions by creating Government of Canada National Housing Administration (NHA) Mortgage-Backed Securities (MBS).

Under the terms of the mortgage purchase agreement between Central 1 and the member credit union, the member credit union agreed to indemnify Central 1 for any losses incurred due to mortgagor defaults. Additionally, Central 1 and the member credit union entered into swap agreements under which the member credit union retained its interest in the spread between the interest earned on the underlying mortgage assets and the cost of funds paid to Central 1 as prescribed in the swap agreements. The member credit union continues to service the underlying mortgages.

As the member credit union retains substantially all the risks and rewards of ownership of the underlying mortgages, Central 1 recognizes its interest in the mortgage assets acquired as Secured loans in the consolidated statement of financial position. These assets were initially recognized and subsequently measured at fair value, with changes in fair value recognized in profit or loss.

Central 1 has transferred certain MBS to Canada Housing Trust (CHT) under the CMB program or to Canada Mortgage and Housing Corporation (CMHC) under the Insured Mortgage Purchase Program (IMPP). Under the terms of these arrangements, Central 1 receives proceeds equal to the fair value of MBS transferred, and accepts the obligation to provide funds to CHT and CMHC for payment of principal and interest on debt instruments issued by CHT and CMHC as specified in swap arrangements between Central 1 and CHT or CMHC.

Principal payments received on the underlying mortgages are used to acquire reinvestment assets in principal retention trust accounts. Interest payments received on the underlying mortgages as well as interest payments received on reinvestment assets are transferred to interest retention trust accounts. Both the principal retention and interest retention accounts are managed by Central 1 on behalf of either CHT or CMHC. Coupon payments on the debt obligations issued by CHT and CMHC are charged to the interest retention account with any shortfall in the account to be funded by Central 1 and any excess to be returned to Central 1 at each coupon date.

As Central 1 has not transferred substantially all the risks and rewards of ownership of the underlying mortgages under these programs, Central 1 continues to recognize the underlying mortgages as secured loans and the transfers to CHT and CMHC are recognized as secured funding arrangements.

Central 1 initially recognizes and subsequently measures the obligations to CHT and CMHC at fair value, with changes in fair value recognized in profit or loss. Central 1 initially recognizes and subsequently measures reinvestment assets acquired at fair value, with changes in fair value recognized in profit or loss.

Interest income recognized on secured loans is based on the cost of funds specified in the related swap agreement between Central 1 and the respective credit union. Fee income is recorded in other income. Interest income on reinvestment assets is recognized in profit or loss based on the contractual terms of the asset.

Jump to table of contents

Interest expense on obligations under the CMB and IMPP programs is based on the fixed or floating cost of funds rate specified in the swap agreement between Central 1 and CHT or CMHC. *Note 10* sets out the details with respect to the financial assets and liabilities recorded with respect to the CMB and IMPP programs.

Securitizations post 2009

Subsequent to 2009, Central 1 securitization activity primarily involves indirect securitizations whereby Central 1 facilitates the transfers of NHA MBS by its member credit unions by acting as a swap counterparty with CHT and through the provision of administrative services. In such instances, indirect securitization transactions are off balance sheet and Central 1 records administration fees as other income when earned but Central 1 does not acquire an interest in the underlying mortgages.

From time to time, Central 1 may also participate in direct securitizations by acquiring an interest in third-party MBS or insured mortgage pools from its member credit unions and subsequently transferring the associated MBS securities to CHT under the CMB program.

Mortgages transferred to CHT continue to be recognized in Central 1's consolidated statement of financial position, as in the opinion of Central 1's management these transactions do not result in the transfer of substantially all the risks and rewards of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in Central 1's consolidated statement of financial position as a secured borrowing.

(h) Derivatives

Derivatives are measured at fair value in the consolidated statement of financial position, with changes in fair value recognized in profit or loss.

Derivatives may be embedded in other contractual arrangements (a 'host contract'). Central 1 accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separate embedded derivatives are accounted for depending on their classification, and are presented in the consolidated statement of financial position together with their host contract.

(i) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that Central 1 does not intend to sell immediately or in the short term.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest rate method.

(j) Securities purchased under reverse repurchase agreements and sold under repurchase agreements.

Securities purchased under reverse repurchase agreements consist of the purchase of the security with a commitment by Central 1 to resell to the original seller on a specified date at a specified price. Financial assets acquired under reverse repurchase agreements, other than those acquired in securitization transactions, are classified as loans in the consolidated statement of financial position. The difference between the cost of the purchase and predetermined proceeds to be received on a resale agreement is recorded in interest income.

A repurchase agreement consists of the sale of a security with a commitment by Central 1 to repurchase the security on a specified date at a specified price. Obligations related to securities sold under repurchase agreements are recorded at amortized cost and in the consolidated statement of financial position. The difference between the proceeds received on the sale of the security and the amount that Central 1 agrees to repay under the repurchase agreement is recorded in interest expense.

(k) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Jump to table of contents

Held-to-maturity
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that Central 1 has the positive intent and ability to hold to maturity, and which are not recognized as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Fair value through profit or loss
Central 1 designates some investment securities at fair value, with changes recognized immediately in profit or loss.

Available-for-sale
Available-for-sale investments are non-derivative instruments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value can be readily determined are carried at fair value.

Certain unquoted equity securities whose fair value cannot be readily determined due to a lack of an active market and the wide diversity of possible valuation techniques and assumptions are carried at cost. The existence of restrictions placed on Central 1's ability to transfer or sell these investments severely limits the size of the available market. In the absence of purchases or sales of these securities between arm's length parties acting independently, Central 1 will continue to carry these investments at the value determined by reference to the most recent transaction which meets such criteria.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if Central 1 has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(l) Property and equipment
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalized as part of equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized net within other income in profit or loss.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the pattern of consumption of future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Computer hardware	3 to 5 years
Furniture, fixtures and equipment	3 to 10 years
Leaseholds	Lesser of the useful life of the leasehold or the term of the lease

Depreciation methods, useful lives and residual values are reassessed each reporting period and adjusted if appropriate.

(m) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Items of investment property are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property. The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years

(n) Intangible assets

Software acquired by Central 1 is classified as intangible asset and is stated at cost less accumulated amortization and accumulated impairment losses.

Expenditure on internally developed software is recognized as an asset when Central 1 is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and capitalized borrowing costs, and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(o) Investment in affiliates

Investments in affiliates are accounted for using the equity method of accounting. As such, Central 1's original investment is recorded at acquisition cost and is adjusted thereafter by Central 1's appropriate share of the affiliate's net income, under the equity method of accounting, in periods subsequent to the acquisition date.

Entities for which Central 1 applies the equity method of accounting are included in *Notes 18* and *43*.

(p) Leases

Central 1 as lessee

Leases where Central 1 assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Central 1 as lessor

Leasing agreements whereby Central 1 earns rental income on premises classified as investment property are classified as operating leases. Central 1 recognizes rental income on a straight-line basis over the term of the lease. Lease inducements are recognized as an integral part of the total lease income, over the term of the lease.

(q) Impairment of non-financial assets

The carrying value of Central 1's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. If the impairment has decreased or no longer exists, impairment loss is reversed to the extent that the estimated recoverable amount does not exceed the carrying amount that would have been determined net of depreciation if no impairment loss had been recognized.

(r) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(s) Provisions

A provision is recognized if, as a result of a past event, Central 1 has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(t) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the one party agrees to compensate another party (the policyholder) if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract are classified as investment contracts or derivative contracts, as appropriate.

Central 1, through its subsidiaries CUPP and SFC, provides insurance related services to its members. CUPP is incorporated under the laws of British Columbia and is subject to the Insurance (Captive Company) Act of British Columbia.

SFC provides limited loss prevention and rehabilitation services on behalf of member credit unions in Ontario.

CUPP provides the following insurance to its shareholders:

- Professional liability insurance, including directors' and officers', corporate errors and omissions, and employment practices liability insurance.
- Master property insurance, including property, liability, financial and boiler and machinery insurance.

Premiums earned are included in Other income and accounted for in the period in which the contract is entered into, and include estimates where the amounts are not determined at the end of the reporting period. Premiums are earned as revenue on a time proportionate basis over the term of the insurance coverage. A provision for unearned premiums is included in Other liabilities and represents the portion of premiums written relating to periods of insurance coverage subsequent to the reporting period.

Central 1, in consultation with its actuaries, maintains a provision for unpaid claims, including adjustment expenses, which is discounted, and represents the estimated amounts required to settle all outstanding and unreported claims incurred at the end of the reporting period. The initial estimate of unpaid

Jump to table of contents

claims is prepared on an undiscounted basis using assumptions, historical trends, and data available on individual claims to determine an expected Net Loss Ratio. Net Loss Ratio is the ratio of claims incurred during a specified period to the premiums earned during that period. The discounted provision for unpaid claims incorporates assumptions about projected cash flows and provisions for adverse deviations.

Differences between the estimated cost and subsequent settlement of claims are recognized in the consolidated statement of profit or loss in the year in which they are settled or in which the provision for claims outstanding is re-estimated. The provision for unpaid claims is subject to measurement uncertainty.

The business risks of insurance reside in the pricing of the product, in management of investment funds, and in the estimation of policy liabilities. Central 1 monitors its exposure to insurance risk by performing sensitivity analysis whereby the potential impact of changes to Central 1's expected Net Loss Ratio on pre-tax earnings and equity are evaluated. Ongoing management practices and policies of Central 1 and its subsidiaries in underwriting, claims and investment activities help mitigate these risk exposures.

(u) Financial guarantees

Financial guarantees are contracts that require Central 1 to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee becomes probable. Financial guarantees are included within other liabilities.

(v) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the enacted tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(w) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior reporting periods. Obligations for defined contribution pension plans are determined by the amounts to be contributed and recognized as expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Central 1 participates in a multi-employer defined benefit plan in which plan assets and liabilities are pooled and actuary does not determine an individual employer's own unfunded liability. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in management's opinion, there is no reasonable way to allocate any defined benefit obligations. This plan is therefore accounted for on a defined contribution basis.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Central 1's net obligation in respect of defined benefits plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. It is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for service in the current and prior periods and discounting that benefit to determine its present value using market yields at the end of the reporting period on high-quality corporate bonds.

Central 1 recognizes all actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments immediately in other comprehensive income.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that benefits vest immediately, the expense is recognized immediately in profit or loss.

Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term incentive plans if Central 1 has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(x) Reserves
Central 1, through SFC, maintains the Credit Union Deductible Fund and the Stabilization Fund on behalf of its member credit unions in Ontario.

The Credit Union Deductible Fund, which is funded primarily by assessments to credit unions, represents the excess of revenue over expense related to the provision of insurance services. The Stabilization Fund represents an endowment in support of loss prevention activities which is restricted to programs that are considered loss preventative in nature.

(y) Revenue recognition

Interest income and expense
Interest income and expense, other than that earned or incurred on trading assets and liabilities, are recognized in profit or loss using the effective interest method. The effective interest rate method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, Central 1 estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and amounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Transaction costs incurred on the acquisition of trading assets or issuance of trading liabilities are recognized in profit or loss at the time of acquisition or issuance. Central 1 records interest income and expense on trading assets and liabilities based on the contractual terms of the instrument.

Interest income and expense presented in the consolidated statement of comprehensive income includes:

- Interest on financial assets and liabilities measured at amortized cost calculated on an effective interest rate basis.
- Interest income on available-for-sale assets calculated on an effective interest basis.

- Interest income and expense on financial assets and liabilities measured at fair value through profit or loss based on the contractual terms of the instrument.

Changes in fair value of financial instruments
Changes in fair value included in the consolidated statement of profit or loss include:

- Fair value changes on derivatives.
- Fair value changes on trading assets and liabilities.
- Fair value changes on financial assets and liabilities under the CMB and IMPP programs.
- Impairment charges on available-for-sale financial assets that have been reclassified from other comprehensive income

Other income
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Membership Dues and Provincial Advertising Assessments are received from Central 1's member credit unions and are recognized in income as earned. Fees earned by Technology and Payment Services, Wholesale Financial Services and Trade and Other Services are recorded in income when Central 1 has rendered the related service and is entitled to receive income.

(z) New standards and interpretations not yet adopted

New standards and interpretations not yet adopted
At December 31, 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. The one which is relevant to Central 1's consolidated financial statements is discussed below.

IFRS 9 – Financial Instruments
In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9 (2009)') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 ('IFRS 9 (2010)') relating to financial liabilities. Together, these changes represent the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

On November 19, 2013, the IASB amended IFRS 9 ('IFRS 9 (2013)') to introduce a new hedge accounting model and remove the mandatory effective date of January 1, 2015 and decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after January 1, 2017. However, early adoption is allowed.

The main changes associated with the replacement of IAS 39 with IFRS 9 are summarized below.

All financial assets that are currently in the scope of IAS 39 will be classified as either amortized cost or fair value. The available-for-sale, held-to-maturity and loans and receivables categories will no longer exist. Financial assets are to be measured at amortized cost if the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding and the entity demonstrates the intention of holding the financial assets for the collection of the contractual cash flows. With certain exceptions that are not anticipated to be significant to Central 1, all other financial assets are to be measured at fair value, with changes in fair value recognized in profit or loss.

An entity would be permitted to designate a financial asset otherwise meeting the amortized cost criteria at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch.

IFRS 9 is required to be applied retrospectively when initially applied; however, Central 1 is not able to determine the impact that IFRS 9 will have on the consolidated financial statements at this time.

4. New accounting standards adopted

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

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

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

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

IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. See also the section on the "Basis of Consolidation" *(Note 2)* for further discussion.

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard establishes a framework for measuring fair value including a revised definition of fair value (further details can be found in *Note 6* to the consolidated financial statements) and sets out disclosure requirements for fair value measurements. Central 1 concluded that there were no significant changes in the fair value measurement of financial instruments required on adoption of this new standard although additional enhancements have been made to disclosures on fair values in the consolidated financial statements.

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

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

The impact of this change is as follows:

(Thousands of dollars)	As Previously Disclosed	Impact of Transitional Adjustments	As Revised
Retained earnings			
As at January 1, 2012	**$ 304,744**	$ 6,038	$ 310,782
Profit for the year, attributable to members	**74,265**	(207)	74,058
Transactions with owners and non-controlling interests	**(10,828)**	829	(9,999)
As at December 31, 2012	**$ 368,181**	$ 6,660	$ 374,841
Accumulated other comprehensive income			
As at January 1, 2012	**$ 45,612**	$ (9,695)	$ 35,917
Other comprehensive income	**5,136**	(1,594)	3,542
Transactions with owners and non-controlling interests	**829**	(829)	–
As at December 31, 2012	**$ 51,577**	$ (12,118)	$ 39,459
Retained earnings			
As at January 1, 2011	**$ 300,126**	$ 2,797	$ 302,923
Profit for the year, attributable to members	**16,506**	–	16,506
Transactions with owners and non-controlling interests	**(11,888)**	3,241	(8,647)
As at December 31, 2011	**$ 304,744**	$ 6,038	$ 310,782
Accumulated other comprehensive income			
As at January 1, 2011	**$ 26,190**	$ (3,438)	$ 22,752
Other comprehensive income	**16,181**	(3,016)	13,165
Transactions with owners and non-controlling interests	**3,241**	(3,241)	–
As at December 31, 2011	**$ 45,612**	$ (9,695)	$ 35,917

Jump to table of contents

5. Use of estimates and judgments

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's:

- Most critical estimates and assumptions in determining the value of assets and liabilities; and
- Most critical judgments in applying accounting policies.

Critical accounting estimates and assumptions

Allowance for credit losses
The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed and approved by management. Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic condition. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Income taxes
Central 1 computes an income tax provision in each of the jurisdictions in which it operates. However, the actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the consolidated financial statements. Estimation of income taxes includes revaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

In periods, the income tax provision is based on an estimate of projected annual earnings by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each reporting date, based on full-year projections of earnings by jurisdiction. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods.

Pension and post-retirement benefits
Central 1 sponsors defined benefit plans providing pension and other post-retirement benefits to cover employees. The determination of expense and obligations associated with employee future benefits requires the use of assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

Critical judgments in applying accounting policies

Securitizations
In applying its policies on securitized financial assets, Central 1 has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Central 1 over the other entity:

- When Central 1, in substance, controls the entity to which financial assets have been transferred, the entity is included in these

Jump to table of contents

consolidated financial statements and the transferred assets are recognized in Central 1's consolidated statement of financial position.

- When Central 1 transfers financial assets to an unconsolidated entity and it retains substantially all the risk and rewards relating to the transferred assets, the transferred assets are recognized in Central 1's consolidated statement of financial position.
- When Central 1 transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognized from Central 1's consolidated statement of financial position.
- When Central 1 neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, Central 1 continues to recognize the transferred financial asset to the extent of its continuing involvement in that transferred financial asset.

Details of Central 1's securitization activities are given in *Notes 10, 14 and 23*.

Determining fair value

The determination of fair value for financial assets and liabilities requires the exercise of judgment by management. The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty, of market factors, pricing assumptions and other risks affecting the specific instrument. See also *Note 6* "Fair value of financial instruments" for further discussion.

Determining if control exists over an investee

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

6. Fair value of financial instruments

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

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

Financial instruments whose book values approximate fair value

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

Financial instruments for which fair value is determined using valuation techniques

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

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

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

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

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

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

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

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

(Millions of dollars) December 31, 2013	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Assets						
Cash	$ –	$ –	$ –	$ –	$ 74.2	$ 74.2
Deposits with regulated financial institutions	–	–	–	–	7.1	7.1
Pledged trading assets	–	64.4	–	64.4	–	64.4
Reinvestment assets under the CMB and IMPP programs	–	306.9	–	306.9	–	306.9
Non-pledged trading assets	–	4,312.4	–	4,312.4	–	4,312.4
Derivative assets	–	29.4	–	29.4	–	29.4
Loans	–	–	–	–	1,158.0	1,158.0
Investment securities	–	5,512.1	9.2	5,521.3	32.1	5,553.4
Secured loans to members	–	–	229.6	229.6	–	229.6
Current tax assets	–	–	–	–	4.3	4.3
Property and equipment	–	–	–	–	16.1	16.1
Intangible assets	–	–	–	–	12.2	12.2
Deferred tax assets	–	–	–	–	6.4	6.4
Investment in affiliates	–	–	–	–	120.1	120.1
Other assets	–	–	–	–	299.9	299.9
Total assets	$ –	$ 10,225.2	$ 238.8	$ 10,464.0	$ 1,730.4	$ 12,194.4
Liabilities						
Deposits designated as trading	$ –	$ 3,398.9	$ –	$ 3,398.9	$ –	$ 3,398.9
Derivative liabilities	–	150.6	–	150.6	–	150.6
Debt securities issued	–	–	–	–	1,097.5	1,097.5
Deposits	–	–	–	–	5,167.6	5,167.6
Obligations under the CMB and IMPP programs	–	831.8	–	831.8	–	831.8
Subordinated liabilities	–	–	–	–	169.1	169.1
Provisions	–	–	–	–	4.0	4.0
Securities under repurchase agreements	–	–	–	–	106.7	106.7
Deferred tax liabilities	–	–	–	–	4.7	4.7
Other liabilities	–	–	–	–	387.2	387.2
Total liabilities	–	4,381.3	–	4,381.3	6,936.8	11,318.1
Net assets (liabilities)	$ –	$ 5,843.9	$ 238.8	$ 6,082.7	$ (5,206.4)	$ 876.3

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

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

Jump to table of contents

Notes to the Consolidated Financial Statements

Years Ended December 31, 2013, 2012 and 2011

(Millions of dollars) December 31, 2012	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost[1]	Total Carrying Value
Assets	$ –	$ 10,846.1	$ 570.7	$ 11,416.8	$ 2,732.6	$ 14,149.4
Liabilities	–	4,762.1	–	4,762.1	8,580.2	13,342.3
Net assets (liabilities)	$ –	$ 6,084.0	$ 570.7	$ 6,654.7	$ (5,847.6)	$ 807.1

(Millions of dollars) December 31, 2011	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost[1]	Total Carrying Value
Assets	$ –	$ 10,136.9	$ 1,176.6	$ 11,313.5	$ 3,271.7	$ 14,585.2
Liabilities	–	5,492.4	–	5,492.4	8,371.8	13,864.2
Net assets (liabilities)	$ –	$ 4,644.5	$ 1,176.6	$ 5,821.1	$ (5,100.1)	$ 721.0

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

(Millions of dollars)	Fair Value at December 31, 2012	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at December 31, 2013
Secured loans to members	$ 561.5	$ –	$ (329.3)	$ –	$ (2.6)	$ 229.6
Equity shares	9.2	–	–	–	–	9.2
Net assets	$ 570.7	$ –	$ (329.3)	$ –	$ (2.6)	$ 238.8

(Millions of dollars)	Fair Value at December 31, 2011	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at December 31, 2012
Secured loans to members	$ 1,167.4	$ –	$ (596.9)	$ –	$ (9.0)	$ 561.5
Equity shares	9.2	–	–	–	–	9.2
Net assets	$ 1,176.6	$ –	$ (596.9)	$ –	$ (9.0)	$ 570.7

(Millions of dollars)	Fair Value at December 31, 2010	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at December 31, 2011
Securities - Trading	$ 1.0	$ –	$ (2.0)	$ –	$ 1.0	$ –
Securities - available-for-sale	1.8	0.4	(2.2)	–	–	–
Secured loans to members	1,929.9	–	(748.0)	–	(14.5)	1,167.4
Equity Shares	9.2	–	(0.3)	(2.3)	2.6	9.2
Net assets	$ 1,941.9	$ 0.4	$ (752.5)	$ (2.3)	$ (10.9)	$ 1,176.6

Note 40 sets out the fair value of the financial instruments in the consolidated statement of financial position.

7. Cash

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
With Bank of Canada	$ **4,399**	$ 1,920	$ 372
With other regulated financial institutions	**69,754**	88,318	100,423
	$ **74,153**	$ 90,238	$ 100,795

8. Deposits with regulated financial institutions

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amortized cost	$ **7,132**	$ 6,272	$ 5,357
Fair value	$ **7,165**	$ 6,331	$ 5,478

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amortized cost	$ **–**	$ 100,003	$ –
Fair value	$ **–**	$ 100,003	$ –

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
	$ **7,132**	$ 106,275	$ 5,357

9. Trading assets

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Government & guarantees	**$ 2,587,633**	$ 1,431,450	$ 2,370,661
Corporate & financial institutions AA[1] or greater	**1,722,808**	1,284,990	1,653,779
Other	**66,415**	98,086	25,920
Fair value	**$ 4,376,856**	$ 2,814,526	$ 4,050,360

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amortized cost	**$ 4,337,025**	$ 2,708,564	$ 3,868,510
Fair value	**$ 4,376,856**	$ 2,814,526	$ 4,050,360
Less pledged trading assets	**(64,443)**	(135,572)	(51,652)
Non-pledged trading assets	**$ 4,312,413**	$ 2,678,954	$ 3,998,708

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Trading assets	**$ 64,443**	$ 135,572	$ 51,652
Amounts included in investment securities	**46,269**	58,905	7,656
	$ 110,712	$ 194,477	$ 59,308

Jump to table of contents

10. Reinvestment assets under the CMB and IMPP programs

As principal and interest payments on the underlying securitizations prior to 2010 securitized assets are received, Central 1 is required to reinvest those assets on behalf of CHT and CMHC. These reinvestment assets, which are recognized in the consolidated statement of financial position at fair value, are as follows:

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Government & guarantees	$ **65,698**	$ 491,590	$ 1,515,037
Assets acquired under reverse repurchase agreements	**89,242**	148,840	55,546
Fair value	$ **154,940**	$ 640,430	$ 1,570,583
Amortized cost	$ **154,512**	$ 638,117	$ 1,558,061

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Fair value of Government & guarantees	$ **151,974**	$ 1,011,814	$ 635,159
Amortized cost	$ **151,715**	$ 1,010,630	$ 630,518
Total reinvestment assets under the CMB and IMPP programs	$ **306,914**	$ 1,652,244	$ 2,205,742

Jump to table of contents

11. Derivative assets and liabilities

The following tables summarize the fair value and the notional amounts by term to maturity of derivative assets and liabilities:

(Thousands of dollars) December 31, 2013	Notional amount by term to maturity 1 year or less	1 to 5 years	over 5 years	Total	Fair value Asset	Liability
Interest rate contracts						
Forward rate agreements	$ –	$ –	$ –	$ –	$ –	$ 3
Swap contracts	6,152,531	17,836,593	2,460,360	26,449,484	97,261	218,728
Options purchased	785,000	–	–	785,000	286	–
Options written	785,000	–	–	785,000	–	302
	7,722,531	17,836,593	2,460,360	28,019,484	97,547	219,033
Foreign exchange contracts						
Foreign exchange spot and forward contracts	300,986	–	–	300,986	1,567	1,343
Other						
Equity index-linked options	123,140	344,097	–	467,237	17,659	17,659
				Total fair value before adjustment	116,773	238,035
				Adjustment for master netting agreements	(87,390)	(87,390)
					$ 29,383	**$ 150,645**

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

The amounts that have been pledged and received as collateral are $84.7 million and $nil million, respectively.

(Thousands of dollars) December 31, 2012	Notional amount by term to maturity 1 year or less	1 to 5 years	over 5 years	Total	Fair value Asset	Liability
Interest rate contracts						
Futures contracts	$ 73,970	$ –	$ –	$ 73,970	$ 25	$ 10
Swap contracts	6,209,847	18,233,361	2,831,074	27,274,282	169,076	350,988
Options purchased	675,000	–	–	675,000	218	–
Options written	675,000	–	–	675,000	–	264
	7,633,817	18,233,361	2,831,074	28,698,252	169,319	351,262
Foreign exchange contracts						
Foreign exchange forward contracts	131,596	–	–	131,596	353	434
Other						
Equity index-linked options	93,638	395,924	–	489,562	14,338	14,338
				Total fair value before adjustment	184,010	366,034
				Adjustment for master netting agreements	(149,992)	(149,992)
					$ 34,018	$ 216,042

(Thousands of dollars) December 31, 2011	Notional amount by term to maturity 1 year or less	1 to 5 years	over 5 years	Total	Fair value Asset	Liability
Interest rate contracts	$ 8,146,132	$ 16,561,260	$ 2,903,460	$ 27,610,852	$ 294,579	$ 464,831
Foreign exchange contracts	128,904	5,296	–	134,200	592	960
Other	97,946	377,634	–	475,580	16,122	16,122
				Total fair value before adjustment	311,293	481,913
				Adjustment for master netting agreements	(269,946)	(269,946)
					$ 41,347	$ 211,967

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

12. Loans

(Thousands of dollars)		December 31, 2013	December 31, 2012	December 31, 2011
Due on demand	- Credit unions	**$ 162,986**	$ 80,977	$ 22,848
	- Commercial and others	**4,107**	1,661	8,866
		167,093	82,638	31,714
Term	- Credit unions	**716,853**	1,753,275	2,151,569
	- Commercial and others	**180,496**	187,392	183,293
	- Reverse repurchase agreements	**66,874**	11,485	105,285
	- Officers and employees	**12,170**	13,767	16,013
	- Mortgage pools	**13,627**	17,464	50,426
		990,020	1,983,383	2,506,586
		1,157,113	2,066,021	2,538,300
Accrued interest		**1,444**	5,084	7,258
		1,158,557	2,071,105	2,545,558
Allowance for credit losses		**(585)**	(1,584)	(12,526)
		$ 1,157,972	$ 2,069,521	$ 2,533,032

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 2.49% to 3.23%.

Impaired loans are as follows:

(Thousands of dollars)	Gross Impaired	Specific Allowance	Collective Allowance	December 31, 2013	December 31, 2012	December 31, 2011
Credit unions	$ –	$ –	$ –	$ –	$ –	$ –
Commercial and others	585	(561)	(24)	–	–	1,171
Total	$ 585	$ (561)	$ (24)	$ –	$ –	$ 1,171

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

(Thousands of dollars)	Specific Allowance	Collective Allowance	December 31, 2013	December 31, 2012	December 31, 2011
Balance at beginning of year	$ 1,374	$ 210	$ 1,584	$ 12,526	$ 9,498
Net write-offs during the year	204	–	204	(8,517)	(2,280)
(Recovery) provision for credit losses	(1,017)	(186)	(1,203)	(2,425)	5,308
Balance at end of year	$ 561	$ 24	$ 585	$ 1,584	$ 12,526

13. Investment securities

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Government & guarantees	$ –	$ –	$ –
Corporate & major financial institutions AA or greater	–	–	–
Other	–	–	10,186
	$ –	$ –	$ 10,186
Amortized cost	$ –	$ –	$ 10,186
Fair value	$ –	$ –	$ 10,033

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amortized cost	$ **5,518,948**	$ 6,338,613	$ 3,839,629
Fair value	$ **5,553,354**	$ 6,386,581	$ 3,880,853

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
	$ **5,553,354**	$ 6,386,581	$ 3,891,039

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Government & guarantees	$ 2,995,013	$ 2,728,159	$ 1,034,145
Corporate & financial institutions AA[1] or greater	2,376,386	3,479,314	2,711,818
Other	181,955	179,108	145,076
	$ 5,553,354	$ 6,386,581	$ 3,891,039

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

The above table includes **$32.1** million (December 31, 2012 - $32.1 million; December 31, 2011 - $32.1 million) of equity investment securities that are measured at cost and for which disclosure of fair value is not provided because the fair value cannot be reliably measured.

At the year-end, securities having a par value of **$970.1** million (December 31, 2012 - $943.5 million; December 31, 2011 - $878.0 million) were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments.

Jump to table of contents

14. Secured loans to members

Through its participation in the CMB and IMPP programs as described in the accounting policy disclosed in *Note 3*, 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)		December 31, 2013		December 31, 2012		December 31, 2011
Total amount of secured loans issued	**$**	**4,240,559**	$	4,240,559	$	4,240,559
Aggregate principal payments received		**(4,011,960)**		(3,684,253)		(3,091,044)
Remaining par value of secured loans to members in the consolidated statement of financial position	**$**	**228,599**	$	556,306	$	1,149,515

The components of these balances are as follows:

(Thousands of dollars)		December 31, 2013		December 31, 2012		December 31, 2011
Remaining par value of secured loans under the CMB and IMPP programs	**$**	**108,394**	$	284,135	$	698,405
Remaining par value of secured loans retained by Central 1		**120,205**		272,171		451,110
	$	**228,599**	$	556,306	$	1,149,515

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

(Thousands of dollars)		December 31, 2013		December 31, 2012		December 31, 2011
Amortized cost	**$**	**229,231**	$	558,481	$	1,155,428
Fair value	**$**	**229,620**	$	561,511	$	1,167,423

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

(Thousands of dollars)		As at December 31, 2013 Increase (Decrease)		As at December 31, 2012 Increase (Decrease)		As at December 31, 2011 Increase (Decrease)
Change in value of secured loans to members:						
200 bps parallel increase in interest rates	**$**	**(191)**	$	(1,164)	$	(5,306)
200 bps parallel decrease in interest rates	**$**	**202**	$	1,230	$	5,525
1% increase in prepayment rate	**$**	**(2)**	$	(21)	$	(102)
1% decrease in prepayment rate	**$**	**2**	$	21	$	102

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

15. Property and equipment

(Thousands of dollars)	Land and Buildings	IT Equipment	Fixtures	Total
Cost				
Balance at January 1, 2013	**$ 13,526**	**$ 14,922**	**$ 14,129**	**$ 42,577**
Acquisitions	**4**	**880**	**1,427**	**2,311**
Disposals	**–**	**(2,243)**	**(3,210)**	**(5,453)**
Balance at December 31, 2013	**$ 13,530**	**$ 13,559**	**$ 12,346**	**$ 39,435**
Balance at January 1, 2012	$ 13,526	$ 12,120	$ 13,924	$ 39,570
Acquisitions	–	2,833	466	3,299
Disposals	–	(31)	(261)	(292)
Balance at December 31, 2012	$ 13,526	$ 14,922	$ 14,129	$ 42,577
Depreciation				
Balance at January 1, 2013	**$ 7,875**	**$ 9,238**	**$ 8,161**	**$ 25,274**
Depreciation for the year	**333**	**2,022**	**1,052**	**3,407**
Disposals	**–**	**(2,231)**	**(3,126)**	**(5,357)**
Balance at December 31, 2013	**$ 8,208**	**$ 9,029**	**$ 6,087**	**$ 23,324**
Balance at January 1, 2012	$ 7,542	$ 7,822	$ 7,403	$ 22,767
Depreciation for the year	333	1,447	1,019	2,799
Disposals	–	(31)	(261)	(292)
Balance at December 31, 2012	$ 7,875	$ 9,238	$ 8,161	$ 25,274
Carrying value				
Balance at December 31, 2013	**$ 5,322**	**$ 4,530**	**$ 6,259**	**$ 16,111**
Balance at December 31, 2012	$ 5,651	$ 5,684	$ 5,968	$ 17,303
Balance at December 31, 2011	$ 5,984	$ 4,298	$ 6,521	$ 16,803

Jump to table of contents

16. Intangible assets

(Thousands of dollars)	External Software	Internally Developed Software	Total
Cost			
Balance at January 1, 2013	**$ 17,769**	**$ 932**	**$ 18,701**
Acquisitions	**7,021**	**–**	**7,021**
Disposals	**(2,081)**	**–**	**(2,081)**
Balance at December 31, 2013	**$ 22,709**	**$ 932**	**$ 23,641**
Balance at January 1, 2012	$ 12,960	$ 874	$ 13,834
Acquisitions	4,830	58	4,888
Disposals	(21)	–	(21)
Balance at December 31, 2012	$ 17,769	$ 932	$ 18,701
Depreciation			
Balance at January 1, 2013	**$ 12,165**	**$ 124**	**$ 12,289**
Depreciation for the year	**822**	**187**	**1,009**
Disposals	**(1,855)**	**–**	**(1,855)**
Balance at December 31, 2013	**$ 11,132**	**$ 311**	**$ 11,443**
Balance at January 1, 2012	$ 11,266	$ –	$ 11,266
Depreciation for the year	920	124	1,044
Disposals	(21)	–	(21)
Balance at December 31, 2012	$ 12,165	$ 124	$ 12,289
Carrying value			
Balance at December 31, 2013	**$ 11,577**	**$ 621**	**$ 12,198**
Balance at December 31, 2012	$ 5,604	$ 808	$ 6,412
Balance at December 31, 2011	$ 1,694	$ 874	$ 2,568

Jump to table of contents

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Deferred tax assets:			
Financial instruments	$ **1,076**	$ 1,508	$ 2,990
Securitization transactions	**379**	701	1,050
Employee future benefits	**3,637**	3,125	3,056
Equity interest in affiliates	**874**	408	405
Other	**405**	647	696
	6,371	6,389	8,197
Deferred tax liabilities:			
Financial instruments	**730**	730	729
Property and equipment	**3,143**	2,124	2,007
Employee future benefits	**481**	59	191
Equity interest in affiliates	**345**	16	54
	4,699	2,929	2,981
	$ **1,672**	$ 3,460	$ 5,216

Jump to table of contents

Changes in deferred tax balances during the year ended December 31, 2013 were as follows:

(Thousands of dollars)	Balance as at January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at December 31, 2013
Deferred tax assets:				
Financial instruments	$ 1,508	$ (432)	$ –	**$ 1,076**
Securitization transactions	701	(322)	–	**379**
Employee future benefits	3,125	264	248	**3,637**
Equity interest in affiliates	408	466	–	**874**
Other	647	(155)	(87)	**405**
	6,389	(179)	161	**6,371**
Deferred tax liabilities:				
Financial instruments	730	–	–	**730**
Property and equipment	2,124	1,019	–	**3,143**
Employee future benefits	59	(135)	557	**481**
Equity interest in affiliates	16	189	140	**345**
	2,929	1,073	697	**4,699**
	$ 3,460	$ (1,252)	$ (536)	**$ 1,672**

Changes in deferred tax balances during the year ended December 31, 2012 were as follows:

(Thousands of dollars)	Balance as at January 1, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at December 31, 2012
Deferred tax assets:				
Financial instruments	$ 2,990	$ (1,482)	$ –	$ 1,508
Securitization transactions	1,050	(349)	–	701
Employee future benefits	3,056	(66)	135	3,125
Equity interest in affiliates	405	3	–	408
Other	696	(49)	–	647
	8,197	(1,943)	135	6,389
Deferred tax liabilities:				
Financial instruments	729	–	1	730
Property and equipment	2,007	117	–	2,124
Employee future benefits	191	(132)	–	59
Equity interest in affiliates	54	38	(76)	16
	2,981	23	(75)	2,929
	$ 5,216	$ (1,966)	$ 210	$ 3,460

Changes in deferred tax balances during the year ended December 31, 2011 were as follows:

(Thousands of dollars)	Balance as at January 1, 2011	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at December 31, 2011
Deferred tax assets:				
Financial instruments	$ 1,324	$ 1,666	$ –	$ 2,990
Securitization transactions	1,488	(358)	(80)	1,050
Employee future benefits	2,371	155	530	3,056
Equity interest in affiliates	406	(1)	–	405
Other	132	564	–	696
	5,721	2,026	450	8,197
Deferred tax liabilities:				
Financial instruments	32	(29)	726	729
Property and equipment	1,820	187	–	2,007
Employee future benefits	152	39	–	191
Equity interest in affiliates	114	(31)	(29)	54
	2,118	166	697	2,981
	$ 3,603	$ 1,860	$ (247)	$ 5,216

18. Investment in affiliates

The carrying value of Central 1's investments in affiliates is as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Credential Financial Inc.	**$ 169**	$ 53	$ 53
Credit Union Central of Canada	**1,298**	1,284	1,037
CUMIS Group Limited	**118,640**	108,833	107,741
	$ 120,107	$ 110,170	$ 108,831

Jump to table of contents

19. Other assets

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Settlements in-transit	**$ 280,973**	$ 279,491	$ 436,563
Investment property	**5,644**	6,012	6,381
Prepaid expenses	**3,714**	2,961	2,950
Post-employment benefits (Note 33)	**3,229**	–	196
Accounts receivable and other	**6,373**	5,767	7,595
	$ 299,933	$ 294,231	$ 453,685

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 year 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 at the expiry of the lease period. The rental income earned for the year is disclosed in *Note 32*.

20. Deposits designated as trading

Deposits designated as trading are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amortized cost	**$ 3,392,920**	$ 2,275,998	$ 2,013,781
Fair value	**$ 3,398,893**	$ 2,286,078	$ 2,034,219

The contractual maturity dates of these liabilities are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amount			
Due within three months	**$ 753,909**	$ 299,315	$ 89,286
Due after three months and within one year	**635,787**	817,942	622,843
Due after one year and within five years	**1,985,265**	1,140,414	1,284,819
	3,374,961	2,257,671	1,996,948
Accrued interest	**17,959**	18,327	16,833
Amortized cost	**$ 3,392,920**	$ 2,275,998	$ 2,013,781

21. Debt securities issued

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Notes			
Due within three months	**$ 527,248**	$ 487,241	$ 149,354
Due after three months and within one year	**269,700**	412,330	–
Due after one year and within five years	**299,469**	269,480	224,625
	1,096,417	1,169,051	373,979
Accrued interest	**1,092**	1,753	1,537
	$ 1,097,509	$ 1,170,804	$ 375,516

Central 1 has established **$89.0** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At December 31, 2013, December 31, 2012 and December 31, 2011, 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 include Central 1's medium-term note facility. At December 31, 2013, a par value of **$528.0** million was borrowed under the short-term commercial paper facility (December 31 2012 - $588.0 million; December 31, 2011 - $149.5 million) and a par value of **$570.0** million was borrowed under the medium-term note facility (December 31, 2012 - $582.9 million; December 31, 2011 - $225.0 million).

Jump to table of contents

22. Deposits

Deposits classified as other liabilities are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amount			
Due on demand	$ 1,040,423	$ 951,469	$ 1,016,528
Due within three months	688,463	1,424,996	2,231,578
Due after three months and within one year	1,258,919	1,342,227	1,893,371
Due after one year and within five years	2,146,019	2,806,894	1,969,499
Due after five years and within six years	–	–	375
	5,133,824	6,525,586	7,111,351
Accrued interest	33,793	38,750	43,300
	$ 5,167,617	$ 6,564,336	$ 7,154,651

23. 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 consolidated statement of financial position. The contractual maturity dates of these obligations are as indicated below.

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amount due within one year	$ 507,499	$ 1,603,436	$ 1,009,649
Amount due after one year and within five years	316,942	611,284	2,110,936
	824,441	2,214,720	3,120,585
Accrued interest	2,264	8,025	11,377
Amortized cost	$ 826,705	2,222,745	3,131,962
Fair value of total obligations under the CMB and IMPP programs	$ 831,762	$ 2,259,992	$ 3,246,227

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Secured loans to members (Note 14)	$ 229,620	$ 561,511	$ 1,167,423
Total reinvestment assets under the CMB and IMPP programs (Note 10)	306,914	1,652,244	2,205,742
Assets recognized as non-pledged trading assets and investment securities (Notes 9 & 13)	295,384	98,525	–
Total assets supporting the CMB and IMPP programs	$ 831,918	$ 2,312,280	$ 3,373,165

Jump to table of contents

24. Subordinated liabilities

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Series 2	$ **150,000**	$ 150,000	$ 150,000
Series 3	**18,000**	18,000	18,000
Principal amount	**168,000**	168,000	168,000
Accrued interest	**1,139**	859	567
	$ **169,139**	$ 168,859	$ 168,567

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

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

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

25. Provisions

Unearned premiums included in other liabilities are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Balance at beginning of year	**$ 668**	$ 864	$ 878
Amount of premiums received during the year	**2,292**	1,553	2,138
Amount of premiums earned during the year	**(2,085)**	(1,749)	(2,152)
Balance at end of year	**$ 875**	$ 668	$ 864

Central 1 maintains provisions for unpaid insurance claims as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Balance at beginning of year	**$ 5,280**	$ 5,798	$ 6,453
Claims incurred	**621**	1,463	1,954
Claims paid	**(1,910)**	(1,981)	(2,609)
Balance at end of year	**$ 3,991**	$ 5,280	$ 5,798

As at year-end, the impact of a 1% increase in the expected Net Loss Ratio would have less than a 1% impact on Central 1's earnings for the year and Central 1's equity as at year-end.

26. Securities under repurchase agreements

Securities under repurchase agreements are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amounts under the CMB and IMPP programs	**$ 106,706**	$ 201,433	$ 57,020

Jump to table of contents

27. Other liabilities

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Settlements in-transit	$ **329,398**	$ 417,089	$ 554,478
Post-employment benefits (Note 33)	**21,706**	21,913	20,707
Short-term employee benefits	**4,470**	6,544	5,841
Dividends payable (Note 28)	**13,978**	3,034	5,251
Unearned insurance premiums (Note 25)	**875**	668	864
Trade amounts and other	**16,716**	14,748	15,783
	$ **387,143**	$ 463,996	$ 602,924

28. Share capital

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

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

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

Jump to table of contents

The numbers of shares issued are as follows:

(Thousands of shares)	December 31, 2013	December 31, 2012	December 31, 2011
Class A – credit unions			
Balance at beginning of year	**290,255**	272,018	164,939
Issued for cash during the year	**16,888**	18,279	107,206
Redeemed during the year	**(2)**	(42)	(127)
Balance at end of year	**307,141**	290,255	272,018
Class B – co-operatives			
Balance at beginning and end of year	**5**	5	5
Class C – other			
Balance at beginning and end of year	**7**	7	7
Class E – credit unions			
Balance at beginning of year	**3,159**	3,159	3,163
Redeemed during the year	**–**	–	(4)
Balance at end of year	**3,159**	3,159	3,159

The amounts outstanding are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Outstanding $1 par value shares			
Class A – credit unions	**$ 307,141**	$ 290,255	$ 272,018
Class B – cooperatives	**5**	5	5
Class C – other	**7**	7	7
Outstanding $0.01 par value shares			
Class E – credit unions	**32**	32	32
	$ 307,185	$ 290,299	$ 272,062

The dividend amounts are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Dividend payable, balance at beginning of year	**$ 3,034**	$ 5,251	$ 2,418
Declared during the year	**13,978**	11,924	10,046
Paid during the year	**(3,034)**	(14,141)	(7,213)
Dividend payable, balance at end of year	**$ 13,978**	$ 3,034	$ 5,251

Jump to table of contents

29. Reserves

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Credit Union Deductible Fund	**$ 1,960**	$ 1,909	$ 2,210
Stabilization Fund	**1,170**	3,076	3,071
	$ 3,130	$ 4,985	$ 5,281

30. Gain on disposal of financial instruments

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Net gain on disposal of trading assets	**$ 56,645**	$ 80,164	$ 101,373
Net gain on disposal of investment securities	**18,292**	9,342	27,916
Net loss on disposal of derivatives	**(44,988)**	(21,923)	(28,034)
Net loss on disposal of deposits	**(3,797)**	(960)	(2,846)
	$ 26,152	$ 66,623	$ 98,409

31. Change in fair value of financial instruments

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Trading assets	**$ (65,733)**	$ (75,063)	$ 120,341
Activities under the CMB and IMPP programs			
Reinvestment assets	**(1,871)**	(14,866)	8,045
Derivative assets and liabilities	**(18,970)**	(50,671)	(3,796)
Secured loans to members	**(2,640)**	(8,965)	(14,503)
Obligations to CHT and CMHC	**32,189**	77,018	9,132
Derivative assets and liabilities	**82,208**	47,145	(216,284)
Trading deposits	**4,107**	10,358	(12,679)
	$ 29,290	$ (15,044)	$ (109,744)

32. Other income

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Membership Dues	**$ 8,730**	$ 8,402	$ 7,607
Provincial Advertising Assessment	**2,523**	1,238	2,260
Equity Interest in Affiliates	**6,758**	3,846	513
Insurance Premiums and Assessments	**5,098**	6,906	10,219
Technology and Payment Services			
Processing fees	**43,756**	40,983	42,686
Direct banking fees	**22,735**	20,258	18,198
Wholesale Financial Services			
Treasury services	**265**	383	401
Foreign exchange income	**3,435**	4,814	2,458
Lending fees	**5,260**	5,097	4,440
Employee benefits & retirement services	**1,207**	1,186	1,059
Trust services	**2,343**	2,275	2,262
Other	**2,030**	713	–
Trade and Other Services			
Product compliance & design	**1,681**	1,529	1,536
Property rents	**696**	1,079	1,061
Risk management	**2,647**	2,718	2,883
Marketing products & programs	**4,371**	2,196	1,472
Research	**842**	810	737
Other	**1,452**	2,424	2,140
	$ 115,829	$ 106,857	$ 101,932

Jump to table of contents

33. Post-employment benefits

Central 1 provides various registered retirement plans for employees including a defined benefit plan and a defined contribution plan. A non-registered supplemental pension plan is also provided to eligible employees whose registered pension plan benefits are limited by the Income Tax Act. In addition to providing retirement plans, Central 1 also funds a retiree (non-pension) benefit plan for eligible employees.

Defined benefit plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined benefit plans.

- The defined benefit plan under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees; and
- The single-employer defined benefit plan administered by Central 1 for certain Ontario-based employees.

The defined benefit pension plans are contributory and provide pension benefits based on the employee's years of service and average earnings for a limited period prior to retirement. Central 1 is one of several employers that participate in the B.C. Credit Union Employees' Pension plan. The Plan is a multi-employer contributory defined benefit pension plan governed by a 12-member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding level as well as determine the present value of accrued pension benefits and recommended plan contributions, based on projections of the employees' average compensation levels at retirement. The most recent actuarial valuation for the multi-employer plan, which was conducted as at December 31, 2012, indicated a going concern unfunded liability of $32.3 million and a solvency deficiency of $93.7 million. The deficit is targeted to be financed over time through increased contributions. The recommended minimum required contributions to the multi-employer plan will increase from 9.5% of accrued payroll as of September 30, 2013 to 14.8% starting from October 1, 2013 to the end of 2015 year.

As the assets and liabilities of the multi-employer plan are pooled and the actuary does not determine an individual employer's own unfunded liability, it is not possible to determine the portion of the deficit related to Central 1.

The next actuarial valuation for the multi-employer plan is scheduled for December 31, 2015 with results available in mid-2016. The Board of Trustees may, however, decide to conduct a valuation sooner than December 31, 2015.

The defined benefit pension option under the B.C. Credit Union Employees' Pension Plan is subject to the provisions under Pension Benefits Standards Act ('The Act') regulated by Financial Institution Commission of British Columbia ('FICOM'). The Act prescribes that, with respect to a solvency deficiency, amortization payments must be made over a period not exceeding 5 years from the review date that established the solvency deficiency.

FICOM granted the defined benefit pension option an extension to amortize the solvency deficiency over 9 years starting January 1, 2014.

As at December 31, 2012, the single-employer plan actuary reported that the plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of $1.87 million. The plan actuary further reported that, as at December 31, 2012, the solvency valuation indicated that there was a shortfall of accrued assets over accrued liabilities of $892 thousand. Central 1 is required to contribute minimum amortization payments of $443 thousand per year through 2013 and 2015. An actuarial review, which would be effective as at December 31, 2015, is expected to be completed during 2016.

Details of the single-employer defined benefit plan, as determined by the plan actuary as at year-end for the past years, are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Recognized (asset) liability for defined benefit obligations			
Present value of obligation	**$ 10,507**	$ 12,384	$ 10,381
Fair value of plan assets	**13,736**	11,904	10,577
Recognized (asset) liability	**$ (3,229)**	$ 480	$ (196)
Movement in present value of defined benefit obligation			
Liability for defined benefit obligation, beginning of year	**$ 12,384**	$ 10,381	$ 9,203
Current service costs	**243**	301	313
Employees' contributions	**97**	143	164
Interest cost on accrued benefit obligation	**506**	531	517
Past service cost (including curtailment)	**(424)**	–	–
Benefits payments	**(462)**	(423)	(573)
Actuarial (gain) loss	**(1,501)**	1,451	757
Accrued benefit obligation extinguished on settlement	**(336)**	–	–
Liability for defined benefit obligation, end of year	**$ 10,507**	$ 12,384	$ 10,381
Movement in plan assets			
Plan assets, beginning of year	**$ 11,904**	$ 10,577	$ 10,285
Employer contributions	**335**	393	445
Employee contributions	**97**	143	164
Interest income on plan assets	**497**	532	567
Return on plan assets, excluding interest income (actuarial gain (loss))	**1,830**	716	(271)
Benefits paid	**(869)**	(423)	(573)
Administration costs (other than costs of managing plan assets)	**(58)**	(34)	(40)
Plan assets, end of year	**$ 13,736**	$ 11,904	$ 10,577
Expense recognized in profit or loss			
Current service costs	**$ 243**	$ 301	$ 313
Administration costs (other than costs of managing plan assets)	**58**	34	40
Past service cost (including curtailment)	**(424)**	–	–
Loss on settlement	**70**	–	–
Interest cost on the accrued benefit obligation	**506**	531	517
Interest income on plan assets	**(497)**	(532)	(567)
	$ (44)	$ 334	$ 303

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Amounts recognized in OCI			
Actuarial (gain) loss on obligation	**$ (1,500)**	$ 1,451	$ 757
Actuarial (gain) loss on plan assets	**(1,830)**	(716)	271
	$ (3,330)	$ 735	$ 1,028

Actuarial assumptions used to determine defined benefit expense:			
Weighted average discount rate on benefit obligation	**4.25%**	5.00%	5.50%
Weighted average salary escalation	**3.00%**	3.00%	3.00%
Expected return on plan assets	**4.25%**	4.25%	4.25%
Actuarial assumptions used to determine accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	**4.75%**	4.25%	5.00%
Weighted average salary escalation	**3.00%**	3.00%	3.00%
Expected return on plan assets	**4.25%**	4.25%	4.25%

Sensitivity of assumptions

Key economic assumptions used in measuring the accumulated benefit obligations and related expenses for the defined benefit option are outlined in the table below. The sensitivity analysis provided is hypothetical as changes in assumptions may not be linear and the sensitivities in each key variable have been calculated independently of the other key variables.

(Thousands of dollars)	Accumulated benefit obligation	2013 expense
Assumed discount rate		
Impact of 1% increase	**$ (939)**	**$ (26)**
Impact of 1% decrease	**$ 1,999**	**$ 31**
Expected rate of return on plan assets		
Impact of 1% increase	**$ –**	**$ –**
Impact of 1% decrease	**$ –**	**$ –**
Weighted average salary escalation		
Impact of 1% increase	**$ 304**	**$ 57**
Impact of 1% decrease	**$ (270)**	**$ (50)**

Defined contribution plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined contribution plans.

- The money purchase option under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees;
- The single-employer money purchase option administered by Central 1 operated for Ontario employees; and
- The group registered retirement savings plan under the B.C. Central 1 Retirement Savings Plan (group RRSP).

Defined contribution plan contributions and group RRSP expense included in the consolidated statements of profit was **$1,539** thousand (December 31, 2012 - $1,443 thousand; December 31, 2011 - $1,329 thousand).

Retiree non-pension benefits

In addition to the base retirement plans, Central 1 provides post-retirement benefits consisting of extended health, Medical Services Plan, dental and life insurance premiums to employees that qualify.

Details of the unfunded non-pension retirement benefit program, as determined by the program actuary as at year-end are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Recognized liability for defined benefit obligations			
Present value of obligation	**$ 15,895**	$ 15,555	$ 15,710
Recognized liability	**$ 15,895**	$ 15,555	$ 15,710
Movement in present value of defined benefit obligation			
Liability for defined benefit obligation, beginning of year	**$ 15,555**	$ 15,710	$ 13,075
Current service costs	**437**	308	571
Interest expense	**666**	548	742
Benefits paid	**(365)**	(284)	(327)
Actuarial (gain) loss	**(398)**	(727)	1,649
Liability for defined benefit obligation, end of year	**$ 15,895**	$ 15,555	$ 15,710
Expense recognized in profit or loss			
Current service costs	**$ 437**	$ 308	$ 571
Interest on obligation	**666**	548	742
	$ 1,103	$ 856	$ 1,313
Amounts recognized in OCI			
Actuarial (gain) loss on obligation	**(398)**	$ (727)	$ 1,649
	$ (398)	$ (727)	$ 1,649

Actuarial assumptions used to determine retiree non-pension benefits expense:			
Weighted average discount rate on benefit obligation	**4.25%**	5.00%	5.50%
Actuarial assumptions used to determine accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	**4.75%**	4.25%	5.00%
Health care cost trend assumptions:			
Health care cost trend rate is assumed to decline	**8.00%**	8.00%	7.00%
Rate to which the cost trend rate is assumed to decline	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2021**	2021	2016

Sensitivity of assumptions

Key economic assumptions used in measuring the accumulated benefit obligations and related expenses for non-pension retiree benefits are outlined in the table below. The sensitivity analysis provided is hypothetical as changes in assumptions may not be linear and the sensitivities in each key variable have been calculated independently of the other key variables.

(Thousands of dollars)	Accumulated benefit obligation	2013 expense
Assumed discount rate		
Impact of 1% increase	$ **(1,760)**	$ **–**
Impact of 1% decrease	$ **2,191**	$ **–**
Assumed overall health care cost trend rate		
Impact of 1% increase	$ **2,038**	$ **11**
Impact of 1% decrease	$ **(1,659)**	$ **(10)**

Jump to table of contents

Non-registered supplemental pension plan

Central 1 also offers supplemental pension retirement benefits to employees who qualify.

Details of the unfunded supplemental pension plan, as determined by the plan actuary as at year-end are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Recognized liability for defined benefit obligations			
Present value of obligation	**$ 5,856**	$ 5,919	$ 4,998
Fair value of plan assets	**(57)**	(40)	(25)
Recognized liability	**$ 5,799**	$ 5,879	$ 4,973
Movement in present value of defined benefit obligation			
Liability for defined benefit obligation, beginning of year	**$ 5,919**	$ 4,998	$ 3,824
Current service costs	**233**	182	169
Interest expense	**251**	251	215
Benefits paid	**(474)**	(301)	(161)
Actuarial (gain) losses	**(73)**	789	951
Liability for defined benefit obligation, end of year	**$ 5,856**	$ 5,919	$ 4,998
Expense recognized in profit or loss			
Current service costs	**$ 233**	$ 182	$ 169
Interest on obligation	**251**	251	215
	$ 484	$ 433	$ 384
Amounts recognized in OCI			
Actuarial (gain) loss on obligation	**$ (73)**	$ 789	$ 951
	$ (73)	$ 789	$ 951

Actuarial assumptions used to determine supplemental pension plan expense:

Weighted average salary escalation	**4.00%**	4.00%	3.00%
Weighted average discount rate on benefit obligation	**4.25%**	5.00%	5.50%

Actuarial assumptions used to determine accumulated benefit obligation:

Weighted average salary escalation	**4.00%**	4.00%	4.00%
Weighted average discount rate on benefit obligation	**4.75%**	4.25%	5.00%

Sensitivity of assumptions

(Thousands of dollars)	Accumulated benefit obligation
Assumed discount rate	
Impact of 1% increase	**$ (557)**
Impact of 1% decrease	**$ 674**

34. Other administrative expenses

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Costs of sales and services	**$ 13,346**	$ 8,181	$ 8,181
Cost of payments processing	**13,734**	12,257	15,064
Insurance claims and premiums	**3,243**	4,979	8,542
Automobile and travel	**1,491**	1,530	1,560
Projects and business development	**4,801**	4,468	4,589
Professional services	**9,183**	4,621	5,722
Directors and officers	**1,274**	1,152	1,085
Membership fees	**4,457**	4,831	4,370
Other	**1,015**	673	1,529
	$ 52,544	$ 42,692	$ 50,642

35. Provision for income taxes

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Provision for income taxes in the consolidated statements of profit	**$ 10,548**	$ 11,533	$ 2,678
Income tax benefit related to dividends accrued and share redemptions	**(2,055)**	(1,671)	(1,465)
Total	**$ 8,493**	$ 9,862	$ 1,213

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

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Current income taxes	**$ 9,296**	$ 9,567	$ 4,541
Deferred income taxes	**1,252**	1,966	(1,863)
Total	**$ 10,548**	$ 11,533	$ 2,678

Central 1's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of **30.5%** (December 31, 2012 – 30.5%; December 31, 2011 – 30.5%).

The 2013 federal budget announced on March 21, 2013 proposed to phase out the deduction available to credit unions over a five year period. The revised federal legislation reflecting the budget intention was enacted during the fourth quarter of 2013. The removal of the credit union deduction has therefore decreased the reduction available to credit unions.

Jump to table of contents

Percentage	December 31, 2013	December 31, 2012	December 31, 2011
	%	%	%
Profit and Loss			
Combined federal and provincial statutory income tax rates	**30.5**	30.5	30.5
Reduction available to credit unions	**(16.3)**	(17.0)	(17.0)
Change in estimated future tax rates on deferred tax balances	**(1.2)**	–	–
Non-deductible and other items	**0.3**	–	0.3
Total	**13.3**	13.5	13.8

36. Guarantees, commitments and contingencies

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

Effective July 6, 2011, Central 1 and the credit union centrals of Alberta, Manitoba and Saskatchewan (the Prairie Centrals) completed the transition of Group Clearing for credit unions across the country from CUCC to a joint venture.

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)	December 31, 2013	December 31, 2012	December 31, 2011
Standby letters of credit	**$ 184,743**	$ 216,353	$ 183,434
Commitments to extend credit	**$ 3,312,499**	$ 3,272,393	$ 3,185,384

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

37. Commitments under leasing agreements

Finance leases

Finance leases relate to computer equipment with lease terms of 24 to 36 months. Central 1 has options to purchase the equipment for a nominal amount upon completion of an optional 12 to 15 month lease extension. Central 1 has the right to return leased assets at the conclusion of the lease term or continue to rent them at the same monthly rate on a month-to-month basis. Central 1's obligations under finance leases are secured by the lessor's title to the leased assets.

Future minimum lease payments are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Not later than one year	**$ 443**	$ 516	$ 701
More than one year and within three years	**418**	276	526
	$ 861	$ 792	$ 1,227

Operating leases

Central 1 leases office premises in two locations. Future minimum operating lease commitments are as follows:

(Thousands of dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Not later than one year	**$ 1,723**	$ 1,707	$ 1,453
More than one year and within five years	**3,882**	4,187	3,180
More than five years	**4,644**	1,893	664
	$ 10,249	$ 7,787	$ 5,297

Total lease payments charged to profit for the year were **$1,484** thousand (December 31, 2012 - $1,499 thousand; December 31, 2011 - $1,800 thousand).

38. Financial instruments – Interest rate risk

The following table summarizes carrying amounts by the earlier of the contractual repricing or maturity dates for the following financial instruments.

(Millions of dollars)	Floating [1]	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Not Rate Sensitive	Total
Assets							
Cash	$ 74.2	$ –	$ –	$ –	$ –	$ –	$ 74.2
Deposits with regulated financial institutions	–	–	6.7	0.3	–	0.1	7.1
Derivative assets	–	–	–	–	–	29.4	29.4
Investment securities	–	2,597.0	621.5	6,368.9	160.5	182.3	9,930.2
Reinvestment assets under the CMB and IMPP programs	–	176.8	105.4	23.5	–	1.2	306.9
Loans	239.0	641.7	160.4	91.9	24.1	0.9	1,158.0
Secured loans to members	–	39.3	189.3	–	–	1.0	229.6
Other assets	–	3.3	–	–	–	455.7	459.0
Total	313.2	3,458.1	1,083.3	6,484.6	184.6	670.6	12,194.4
Liabilities							
Deposits	1,040.4	1,439.9	1,894.7	4,131.3	–	60.2	8,566.5
Derivative liabilities	–	–	–	–	–	150.6	150.6
Debt securities issued	–	527.2	269.7	299.5	–	1.1	1,097.5
Obligations under the CMB and IMPP programs	–	179.4	328.1	316.9	–	7.4	831.8
Subordinated liabilities	–	18.0	150.0	–	–	1.1	169.1
Securities under repurchase agreements	–	106.6	–	–	–	0.1	106.7
Other liabilities	–	–	–	–	–	395.9	395.9
Equity	–	–	–	–	–	876.3	876.3
Total	1,040.4	2,271.1	2,642.5	4,747.7	–	1,492.7	12,194.4
On-Balance Sheet Gap	(727.2)	1,187.0	(1,559.2)	1,736.9	184.6	(822.1)	–
Off-Balance Sheet Gap	–	528.3	305.1	(686.3)	(147.2)	–	(0.1)
Total Gap – December 31, 2013	**$ (727.2)**	**$ 1,715.3**	**$ (1,254.1)**	**$ 1,050.6**	**$ 37.4**	**$ (822.1)**	**$ (0.1)**
Total Gap – December 31, 2012	$ (613.7)	$ (706.6)	$ 101.5	$ 2,087.8	$ (36.3)	$ (832.8)	$ (0.1)
Total Gap – December 31, 2011	$ (645.2)	$ 570.4	$ (55.7)	$ 914.8	$ (64.8)	$ (719.5)	$ –

[1] Represents those instruments whose interest rates change immediately with a change in an underlying interest rate basis. An example would be prime rate loans.

Jump to table of contents

39. Financial instruments – Foreign currency exposure

Central 1 has various financial instruments denominated in foreign currencies. The details of Central 1's financial instruments which are denominated in US dollars are as follows:

(Thousands of US dollars)	December 31, 2013	December 31, 2012	December 31, 2011
Assets			
Cash	$ **33,394**	$ 36,841	$ 63,370
Securities	**805,611**	957,802	908,101
Loans	**1,984**	3,284	436
Other	**251**	744	616
	841,240	998,671	972,523
Liabilities			
Deposits	**765,399**	915,545	880,387
Other	**42,625**	65,152	65,894
	808,024	980,697	946,281
On-balance sheet exposure	**33,216**	17,974	26,242
Off-balance sheet exposure	**(35,053)**	(29,594)	(31,040)
	$ **(1,837)**	$ (11,620)	$ (4,798)

Central 1 does not have significant exposure to other foreign currencies.

40. 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 5*. Fair values have not been attributed to assets and liabilities that are not considered financial instruments, such as capital assets.

	Fair Value			Carrying Value			Unrealized Gain (Loss)		
(Millions of dollars)	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2013	December 31, 2012	December 31, 2011
Assets									
Cash	**$ 74.15**	$ 90.24	$ 100.80	**$ 74.15**	$ 90.24	$ 100.80	**$ –**	$ –	$ –
Deposits with regulated financial institutions[1]	**7.17**	106.30	5.48	**7.13**	106.28	5.36	**0.04**	0.02	0.12
Investment securities[1]	**9,930.21**	9,201.10	7,941.25	**9,930.21**	9,201.10	7,941.40	**–**	–	(0.15)
Reinvestment assets under the CMB and IMPP programs	**306.91**	1,652.24	2,205.74	**306.91**	1,652.24	2,205.74	**–**	–	–
Derivative assets	**29.38**	34.02	41.35	**29.38**	34.02	41.35	**–**	–	–
Loans[2]	**1,154.78**	2,071.08	2,536.04	**1,157.97**	2,069.52	2,533.03	**(3.19)**	1.56	3.01
Secured loans to members	**229.62**	561.51	1,167.42	**229.62**	561.51	1,167.42	**–**	–	–
Other assets	**459.06**	434.51	590.08	**459.06**	434.51	590.08	**–**	–	–
Liabilities									
Deposits designated as trading	**3,398.89**	2,286.07	2,034.22	**3,398.89**	2,286.07	2,034.22	**–**	–	–
Derivative liabilities	**150.65**	216.04	211.97	**150.65**	216.04	211.97	**–**	–	–
Debt securities issued[1]	**1,099.08**	1,173.28	379.03	**1,097.51**	1,170.80	375.52	**(1.57)**	(2.48)	(3.51)
Deposits from members[1]	**5,189.02**	6,599.20	7,203.59	**5,167.62**	6,564.34	7,154.65	**(21.40)**	(34.86)	(48.94)
Obligations under the CMB and IMPP programs	**831.76**	2,260.00	3,246.23	**831.76**	2,260.00	3,246.23	**–**	–	–
Subordinated liabilities[1]	**171.92**	171.25	171.80	**169.14**	168.86	168.57	**(2.78)**	(2.39)	(3.23)
Securities under repurchase agreements	**106.71**	201.43	57.02	**106.71**	201.43	57.02	**–**	–	–
Other liabilities	**395.83**	474.79	615.98	**395.83**	474.79	615.98	**–**	–	–
Total							**$ (28.90)**	$ (38.15)	$ (52.70)

(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

Jump to table of contents

41. Nature and extent of risks arising from financial instruments

The nature of Central 1's holdings of financial instruments exposes Central 1 to credit, liquidity and market risk.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises in Central 1's lending operations, investment activities, and payment and settlement operations. Credit risk associated with Central 1's loans to its member credit unions is minimal because these loans are fully secured and Central 1 has no previous history of losses on these loans. Involvement in commercial lending is primarily restricted to syndications in response to the needs of local members. Commercial loans are evaluated and adjudicated by a Credit Risk Management Department, under the direction of the Management Credit Committee. Central 1 maintains a provision with a documented methodology to cover for any potential losses. Credit risk on investments is carefully managed by imposing strict requirements on the credit quality of each issuer of securities and on derivative counterparties. Credit risk in settlement operations is mitigated by the taking of security or by ensuring that the counterparty is of high credit quality. Separate credit risk appetite statements, limits and tolerances are established for each of the MRP and Excess Liquidity Pools.

In managing credit risk exposure, Central 1 adheres to a number of key procedures including:

- Application of sound, stringent lending and/or funding criteria to all assets prior to their acquisition;
- Credit reviews by internal management and, if required by policy, either a Board-appointed committee or the Board, itself, before funding is extended;
- Once funding is approved, ongoing credit risk evaluation and assessment;
- Diversification of assets to reduce credit exposure to issuer and industry concentration, with all loan and securities credits being subject to individual and related group limits;
- Continuous review of the criteria used to establish credit approval, and the immediate reduction in credit limit approval if market or other conditions indicate that a deterioration in credit quality has occurred or is likely to occur; and
- Appropriate pricing of approved credits to ensure that adequate compensation is received for the risk incurred.

Summary information regarding Central 1's securities and loans is included in *Notes 9, 12 and 13* of the consolidated financial statements.

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 liquidity for its member credit unions, Central 1 is responsible for ensuring that managed assets are available to meet its own needs, together with those of its member credit unions.

Central 1 maintains separate liquidity risk appetite statements, limits, and tolerances for each of the MRP and Excess Liquidity Pools. Assets held within the MRP consist of unencumbered, high-quality, liquid securities that can, subject to regulatory approval, be readily sold or pledged in both normal and stressed market conditions. Central 1 at all times maintains sufficient assets in the MRP to fund all credit union mandatory deposits.

Central 1 is also a party to an inter-Central liquidity support structure (Inter-Central Liquidity Agreement) governed by a contractual agreement between Central 1 and the provincial Centrals of Alberta, Manitoba and Saskatchewan (collectively the Prairie Centrals) designed to allow two of the provincial Centrals to access a liquidity fund at the same time in the event of a localized disruption.

Provincial regulations require that British Columbia credit unions maintain 8% of their aggregate debt as deposits with Central 1, with exception for credit unions whose aggregate deposit and other liabilities exceeds 1.5% of the assets of the B.C. credit union system, which are required maintain deposits with Central 1 equal to 1.5% of B.C. credit union system assets.

Provincial regulations require that Ontario Class 1 member credit unions maintain at least 7% of their total deposits and borrowings and Class 2 member

Jump to table of contents

credit unions shall establish and maintain prudent levels and forms of liquidity that meet all obligations as they come due. As a condition of membership, Ontario credit unions are required to enter into a Liquidity Agreement with Central 1. Under the terms of those agreements, Central 1's member credit unions in Ontario must maintain deposits with Central 1 equal to the greater of that required by Ontario provincial regulations less cash on hand, and 6% of assets.

Central 1's liquidity management framework is designed to ensure that reliable and cost-effective sources are available to satisfy current and prospective commitments of Central 1's member credit unions, as well as Central 1's obligations under the Inter-Central Liquidity Agreement (ICLA). The primary components of this framework are the maintenance of a large dedicated pool of marketable securities that can readily be converted to cash, ongoing access to diversified sources of wholesale funding and participation in the ICLA.

Diversification, which provides flexibility, minimizes concentration risk and generally lowers the cost of funds, is a crucial component of Central 1's overall liquidity management strategy. Central 1's primary funding source is deposits from credit unions, the majority of which are required by regulation.

Central 1 competes for credit union excess liquidity and, historically, holds most of this liquidity on behalf of its member credit unions. Supplementary to this core deposit base are Central 1's commercial paper and medium-term note programs and lines of credit with other financial institutions, details of which are provided in *Note 21*. Central 1's members also use asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes.

Central 1's ability to access unsecured funding from capital markets and the cost of such funds primarily depends on its ongoing maintenance of acceptable credit ratings. This, in turn, is largely determined by the quality of Central 1's and its member credit unions' earnings. Central 1 constantly monitors and assesses the liquidity requirements of its members in light of current and forecast economic conditions. This allows Central 1 to identify potential liquidity imbalances and to take corrective action through its liquidity management framework.

Central 1 has imposed limits on projected net fund outflows for specified short-term periods and on the minimum degree of liquidity inherent in its pool of marketable securities. Central 1 also has minimum funding coverage ratios on the lines of credit granted to its members.

The contractual maturity of Central 1's non-trading notes and deposits is included in *Notes 21 and 22* of the consolidated financial statements.

Market Risk

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates, and credit spreads as well as the risk of credit migration and default. The level of market risk to which Central 1 is exposed varies depending on market conditions, future price and market movements and the composition of Central 1's investment, lending and derivative portfolios. Central 1 is not exposed to other significant price risk.

Interest rate risk is the potential adverse impact on Central 1's earnings and economic value due to changes in interest rates. As most of its balance sheet is made up of interest-bearing assets and liabilities with different maturity dates, Central 1 potentially has significant exposure to interest rate changes. Information regarding interest-bearing Central 1's assets and liabilities is provided in *Note 38*.

Central 1 will not incur market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill its primary mandate of safeguarding system liquidity. Central 1 has established separate market risk appetites and limits for each of the MRP and the Excess Liquidity Pool.

Central 1 continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modelling its assets, liabilities and equity, including off-balance sheet exposures, against the impacts of various possible rate increases or decreases.

Foreign exchange rate risk is the 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 these currencies from and sells them 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. As at year-end, Central 1 does not have significant net exposure to changes in foreign currency exchange rates as indicated in *Note 39*.

Central 1 manages its exposure to credit spreads, credit migration and the risk of default through a range of governance and management processes. These include oversight by the Investment and Lending Committee, a sub-committee of the Board of Directors, a comprehensive set of policies and corporate standards, independent measurement of market risk, and adherence to a set of limits with appropriate monitoring, reporting and escalation of limit breaches.

42. Capital management

Central 1's capital levels are regulated under federal guidelines issued by OSFI and provincial regulations administered by 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. Central 1 targets an operating borrowing multiple of 14.0:1 to 17.0:1 to ensure that it has capacity to absorb sudden increases in system deposits or to increase external borrowings to meet member demand for funds.

Provincial regulations 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 zero%.

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.

As at December 31, 2013, 2012 and 2011, Central 1 was in compliance with these regulatory requirements.

43. 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)	December 31, 2013	December 31, 2012	December 31, 2011
Mortgage loans outstanding at end of year	**$ 1,062**	$ 1,415	$ 1,348
Maximum mortgage loans outstanding during the year	**$ 1,415**	$ 1,890	$ 1,348

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 year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at year-end.

Key management personnel compensation for the year comprised:

(Thousands of dollars)	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Salaries and short-term employee benefits	**$ 3,376**	$ 4,064	$ 3,924
Post-employment benefits	**374**	335	367
Termination benefits	**2,833**	–	–
	$ 6,583	$ 4,399	$ 4,291

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

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

Board of directors

During the year, the members of Central 1's Board of directors received aggregate remuneration of **$766** thousand (December 31, 2012 - $618 thousand; December 31, 2011 - $537 thousand).

Significant Subsidiaries

(% ownership of common shares outstanding)	December 31, 2013	December 31, 2012	December 31, 2011
Central 1 Trust Company	**100%**	100%	100%
Central Risk and Insurance Management Services Inc.	**100%**	100%	100%
CUPP Services Ltd.	**100%**	100%	100%
Stabilization Fund Corporation	**100%**	100%	100%

CUPP, 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 year. 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 SFC are retained for use by Central 1's member credit unions in Ontario and, as such, SFC does not declare or pay dividends.

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

Investments in affiliates

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

(% ownership of common shares outstanding)	December 31, 2013	December 31, 2012	December 31, 2011
Credential Financial Inc.	**40%**	40%	40%
Credit Union Central of Canada (CUCC)	**51%**	50%	50%
CUMIS Group Limited	**27%**	27%	27%